

Hartmut Soell *Editor*

Helmut Schmidt

Pioneer of International Economic and Financial Cooperation



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For the 95th birthday of Helmut Schmidt



Helmut Schmidt at the SPD-Party Congress in Dortmund, 1 June 1966, Helmut Schmidt as a member of the SPD Party Board. Source © Jupp Darchinger from the book: Dieter Dowe, Michael Schneider (Eds.), Jupp Darchinger, 2008: *Helmut Schmidt: Fotografiert von Jupp Darchinger* (Helmut Schmidt with photographs by Jupp Darchinger) (Bonn: Dietz). A series of these photos of Helmut Schmidt by Jupp Darchinger is available at *Zeit Online*; at: http://www.google.de/imgres?imgurl=http://images.zeit.de/bilder/2008/48/bildergalerien/galerien/bg-schmidt/01.jpg&imgrefurl=http://www.zeit.de/online/2008/49/bg-schmidt&h=380&w=300&sz=33&tbnid=rz1xo4bQUfUoM:&tbnh=130&tbnw=103&zoom=1&usq=_1Zm9HRkJZKLWs8VyRzHJd8Dw6Mw=&docid=fJBWRUpsAK5hFM&sa=X&ei=_jdnUpyGDoSzrgfvuoHoBw&ved=0CFgQ9QEwDA&dur=653

Preface

In July 1972, when Chancellor Willy Brandt had appointed Helmut Schmidt as a dual minister of the Economy and Finance succeeding Karl Schiller, Schmidt could rely on his experience as a trained economist, as the former director of Hamburg's transportation policy, and as a long-term member of the German Federal Parliament in the area of national economic policy and briefly also at the European level. But he had not yet acquired in-depth knowledge of international financial and currency policy. His predecessor Karl Schiller had been a star at international currency conferences. These conferences of the Club of Ten had become necessary in 1967/1968 due to the crises in the British and French currencies and later because of President Nixon's decision of 15 August 1971 to end convertibility between the US dollar and gold.¹

The Smithsonian Agreement, adopted on 18 December 1971 in Washington, was to a large extent designed by Schiller. It led, on balance, to an increase in the value of the Deutsche Mark in relation to the US Dollar but at the same time to a reduction in the trade restrictions imposed by Nixon. The same applied to the "currency snake" adopted on 21 March 1972 by the Council of the European Community, which allowed exchange of currencies between member states and candidate countries only within a margin of 2.25 %. In June 1972, when currency speculation increased, many banks and businesses in Europe and overseas moved from countries with weaker currencies to the German Mark, looking for a safe harbour. The weakness of the British Pound had once again stimulated this process. This intensified the controversy between the German Federal Bank (*Bundesbank*) and Schiller, the then Minister of Economics. The Federal Bank wanted to insist that the purchase of certain securities by external buyers had to be approved, while Schiller did not rule out a unilateral floating of his nation's own currency. The majority of the cabinet—including Schmidt and the Chancellor—approved the decision of the Federal Bank. They did not want to demonstrate once more to French President Pompidou, whose visit to Bonn was imminent, that the Federal Republic had meanwhile become the "économie dominante" in Western Europe in the currency field—as French newspapers were claiming.

¹ This prefatory essay was written in German by Hartmut Soell, translated by Hans Günter Brauch and carefully language-edited and corrected by Mr. Michael Headon (Colwyn Bay, Wales, UK).

Schmidt perceived his role as Minister of the Economy and Finance differently from Schiller. He saw himself primarily as a political practitioner, and not as the proponent of a theoretical concept of a market economy. In September 1972, in a presentation to the well-respected *Verein für Sozialpolitik*, he showed himself to be convinced that the market economy could cope now and in the foreseeable future with its social obligations much better than all other systems. However, to the question of whether the Federal Republic of Germany was organized as well as it might be, he gave the answer “no”.

During the 1970s, he had not been able to ignore the dispute in the economic sciences between Keynesians and Monetarists concerning the link between inflation and unemployment, given that the Federal Republic of Germany had an inflation rate of 5 %. Despite the high level of integration of its industry within the global economy and the inflation brought about by the importation of currency crises, the inflation rate in most cases was significantly below that of its most important partner countries.

In most countries of the *European Community* (EC), the unemployment rate had also risen rapidly, but in the Federal Republic, after the short home-grown recession of 1966/1967 had been overcome, there had been full employment since the late 1960s. Despite the dispute over dogmas in the economic sciences, from the time that he took over in 1972 as a super-minister, Schmidt pursued a pragmatic course aimed at limiting the growth rates of public budgets at national level and within the federal German states, making possible a modest growth rate and securing full employment. He never forgot that the success of this policy depended on the maintenance of a balance of trade.

From his perspective, this goal was not permanently achievable without closer cooperation between the most important Western industrial countries on currency issues and in the coordination of their economic policy.

A few days after he took over, he went to Washington, DC to discuss a more proactive defence of the exchange rate of the US dollar with the then Secretary of the Treasury George Shultz. Then he went to Paris to persuade his counterpart there to drop the French initiative to introduce a split exchange rate at EC level like the one already existing in France: fixed exchange rates for trade in economic goods and floating exchange rates for financial transactions and the currency market. This split was unacceptable to Bonn because of the much stronger integration of the German economy into the world economy. Without ignoring the differences between the Federal Republic and France in their economic structure and in their thinking, in the following weeks Schmidt, together with senior officials from his dual Ministry of the Economy and Finance, from the Chancellor's Office and from the Federal Bank, designed a programme that contained at its core important goals for an intensification in international cooperation, which he pursued in the years following. He focused initially on seven demands as a basis for further operative policy decisions:

1. To contain inflation, not just national measures but also those at a European level would be needed, as well as further development of the European Union.

2. Cooperation between the central banks would be necessary to dry up the market in Eurodollars.
3. This would require a European intervention mechanism, which would guarantee the balance of payments of the member countries preferably not with gold but with Special Drawing Rights and Reserve Positions held by the *International Monetary Fund* (IMF).
4. A special fund for currency cooperation managed by the directors of the European central banks should be established as a building block for a future European Central Bank system.
5. Exchange rates should be firm but flexible enough to allow necessary changes.
6. The Special Drawing Rights held by the IMF should become the new reserve currency and thus partly replace the US dollar in this function.
7. The position of the IMF in the world currency system should be strengthened.

With this innovative programme of September 1972, he was aware that if progress could be achieved at the European level the Federal Republic would have to shoulder a large part of the fiscal burden.

Where were the partners to be found for this far-reaching approach?

Schmidt tried first to promote his ideas to the French Minister of Economics and Finance, Valéry Giscard d'Estaing, and later to persuade the British Chancellor of the Exchequer, Anthony Barber. Giscard was personally open to a stability pact at the European level—combined with national efforts. The French President Pompidou was willing to accept a higher inflation rate—for fear of a repetition of the events of May 1968 in Paris. From Giscard's perspective, this was a mistake, since it would prevent a modernization of the French economy that was falling further behind the Federal German economy.

The British, whose admission to the European Union in January 1973 was now certain, were reserved. Their economy had experienced periodic periods of weakness since 1967/1968. Just before this, in June 1972, the British Pound had left the snake and been floated.

Thus isolated, during the conference of the economic and finance ministers in mid-September 1972 in Rome, Schmidt used his veto against the proposal that the future fund for currency cooperation should contain automatic support for financial aid with no limit on the amount and with no requirement for domestic economic reforms.

In October 1972, the EC summit in Paris agreed to establish an economic and currency union by the end of 1980. Given the large differences in the economic structures of the member states, this was a very ambitious schedule. To avoid the regional fund planned to balance structural and regional differences being misused to solve normal budgetary problems, Schmidt proposed that the financial resources for this fund should not be made available before the transition to the second phase of the currency union.

His suggestion was not taken up, nor did he succeed with his proposal to jointly counter inflation by reducing custom rates and by limiting the monetary room for manoeuvre to the nominal growth rate of the Gross National Product. Besides

France, Italy—whose inflation rate was twice as high as that of the Federal Republic—feared that social stability in the country would be endangered by cuts in public expenditure.

However, Schmidt was not discouraged by this setback. At a national level and by agreement with the Federal Bank he could limit the growth of the money supply, although it was not easy—given the ‘politics of internal reform’ that was being pursued—to keep states and municipalities from implementing a budgetary policy with pro-cyclical effects. In the following years their budgetary growth exceeded that of the Federal government.

Despite the complex political system of the Federal Republic—stiff competition between the political parties on the one hand, Federal division of power on the other hand—where the complex overlapping of politics could lead into a trap or at least to an occasional blockage, he was increasingly concerned by the situation in Europe from the start of 1973 onwards.

The chances of maintaining at least the preconditions for the first stage of the intended economic and monetary union—especially staying together in the ‘snake’—were further reduced in January 1973. The decision of the Italian government to split the lira into a trade lira and a finance lira that provoked a flight of capital to Switzerland, the unpegging of the franc, and the increasing American balance of payments deficit triggered a new flood of dollars, with European central banks caching their dollar credits at the Federal Bank.

The Federal government and the Federal Bank at first seemed to be awaiting events; behind the scenes intensive negotiations were taking place between Schmidt, Giscard, Barber and the deputy US Secretary of the Treasury, Paul Volcker; Schmidt wanted to avoid a German solo run under almost all circumstances. For that he was heavily criticized by the opposition but also in the press. ‘Der Spiegel’ called him a “hapless speculator”. Shortly afterwards, when the US had devalued the dollar by 10 %, as they had previously intimated they might, the same periodical hailed him as the “Iron Chancellor” who had succeeded in forcing even Nixon to his knees. The same Nixon thanked Chancellor Brandt for the constructive role Schmidt had played in balancing the different starting positions of Washington and Paris.

Two weeks later foreign currency again flooded the coffers of the Federal Republic. Once again this was triggered by the weakness of the lira. Suddenly the Italian government pleaded for a European flotation of currencies, something it had previously rejected. This was based on the precondition that the Federal Bank would grant unlimited and unconditional credits. Italy was thus in harmony with British wishes.

For the first time Schmidt dropped a strong hint that there might be a unilateral German flotation. After he had mobilized Kissinger and Shultz and mediated in the heated dispute within the Group of Ten between the US and France, it was decided during the night after the French elections in mid-March 1973 that the currencies of the “trunk” EC—consisting of the Federal Republic of Germany, the Benelux countries and Denmark—would float against the dollar. Thus the system of Bretton Woods, established in 1944 and so laboriously repaired in December 1971, came

to an end. Schmidt did not see this as a step ahead, but only as a partial defence of the level of European monetary integration that had been achieved in spring 1972.

The relationship between Europe and the USA was furthered by the *Library Group* of the four finance ministers—Barber, Giscard, Schmidt, Shultz—joined a little later by the Japanese Finance Minister Aichi and after his death by his successor Fukuda. The name of the group came from the site of its first meeting, the library of the White House, an offer Nixon had made for reasons of courtesy to his Secretary of the Treasury. This informal group was only a limited replacement for Bretton Woods. Its members met repeatedly—including outside of the formal meetings of the Committee of Twenty of the IMF—in between times telephoning each other or sending envoys whenever there was high tension in the currency exchange markets. The group was an expression of the diffusion of the power that had moved in this area somewhat away from its central pole, the United States, and was in the future to organize itself in a more multipolar fashion. Despite these talks and informal agreements, that reduced differences in perception and the build-up of positions of prestige, the imperatives of the respective national policies remained—as well as their repercussions for others.

In May 1973, after taking the first steps towards policies of stability in February 1973, Bonn had decided on substantial interventions (investment tax, stability levy on middle and higher incomes, setting aside of increased tax revenues, etc). The goal was to shake off the ‘inflation’ mentality—the rate of price increases had considerably exceeded the record of 7 %—and it was foreseeable that soon speculation in advance of revaluation would occur; at the end of June 1973, there was a new flood of foreign currency into the Federal Republic. The Federal Bank supported the currencies in the ‘snake’ vigorously. Finally the Deutsche Mark was revalued against the other currencies of the ‘snake’ by 5.5 %, though the other partners were only half in agreement.

Schmidt was to some extent at a loss: far-reaching ideas for concerted action were blocked by the other partners. Bonn’s unilateral action, which nevertheless upheld the ‘snake’ as a basis for such action, gave rise to misgivings. For the first time, Schmidt began to speak in the inner circles of “certain employment risks” connected with the policy of stability.

Less than four months later the oil price shocks triggered by the Arab members of OPEC meant that the national policies of the EC countries and of the community itself and its relationship with the US were faced with significantly greater ordeals.

Schmidt had already tried a year earlier to reduce the massive dependence of the Federal Republic on oil. He had scarcely been in office when in September 1972, together with his advisers and with the vice president of the EC Commission responsible for energy questions, Wilhelm Haferkamp, he had developed an initial energy policy that would not only guarantee the national energy supply but which also foresaw closer cooperation within the EC.

He was still not free of this topic when he handed over to the Minister for the Economy Friedrichs of the coalition partner *Free Democratic Party* (FDP) after the parliamentary elections in November 1972. In a talk on German Shipbuilding

Day in Hamburg at the end of March 1973, he warned that within a few years the energy supply question would affect not only industry, “but every single one of us quite fundamentally in our daily lives”. The OPEC countries would try to use their position as suppliers not only as an economic lever but also politically. By ‘political’ he then still understood that the oil countries, given the rising demand, would limit the supply so that a large amount of oil would remain untapped and its value would not decline. The several devaluations of the American dollar after 1971—the price of oil was still invoiced in US dollars—was to justify this policy of OPEC. Schmidt also thought about the effects of this higher income on the currency system. Petrodollars would become more important than Eurodollars and together they would increase the turbulence.

In October 1973, added to his existing problems came an essentially new and shocking challenge: the vehement use of oil as a political weapon against the US and against EC countries such as the Netherlands who had assisted the US in its support for Israel when it was attacked by Egypt and Syria.

He suggested three ways of dealing with these challenges (besides the several national preventive measures launched by the Bonn government in September 1973 as part of the comprehensive energy policy programme, such as the duty of the oil companies to stock oil and the duty of the state to maintain oil reserves for 90 days): 1. To establish a counter-cartel of oil-consuming countries. 2. To create bilateral supply agreements between individual countries and large oil-producing countries. 3. To rely in the medium and long term on cooperation between the industrial states and the oil-producing countries.

Official French policy had initially favoured the second alternative. Its supply agreements with Saudi Arabia included provisions that permitted large price increases. Italy tended towards a similar behaviour. The British waited and placed their hopes in the longer term on North Sea oil. The US was inclined towards the first idea. At the same time they were preoccupied with reaching a stable ceasefire in the Near East in order to roll back the increasing Soviet influence in that region.

Schmidt, like Giscard d’Estaing, preferred the third possibility but he did not rule out earlier measures based on the first. In order to develop a common Western position, he had proposed to US Secretary of State Kissinger in early November 1973 the establishment of a panel of experts consisting of representatives of the oil-consuming and the oil-supplying countries and of the multilateral oil companies. It would design appropriate solutions not only for supplies, prices and volume but also for the ‘recycling’ of Petrodollars, for example through investment in industrial states and aid for developing countries, which had become major victims of the tripling and quadrupling of oil prices. For Kissinger such a panel was too non-committal, and so he transformed the proposal into a conference of Western industrial states who were among the largest oil consumers. He did not want to give up the idea of a confrontational counter-cartel. But he accepted the suggestion of enlarging the agenda of the energy conference in February 1974 in Washington to include questions of energy saving and the development of new energy sources, as well as possibilities for cooperation with the oil countries.

Prior to this conference, Schmidt and Giscard had agreed on a middle way on these issues. As Giscard's position was too cooperative from President Pompidou's perspective, Foreign Minister Michel Jobert was sent to Washington, where he isolated himself from the representatives of the other EC countries. Schmidt opposed attempts to save own interests by entering into bilateral agreements with individual oil-exporting countries. Without mentioning his neighbouring country he argued that with this alternative the currency reserves would be consumed more rapidly. After his return to Paris, Jobert labelled the behaviour of Schmidt and of other EC partners as 'treason'. After the death of Pompidou in early Spring 1974 and the election of Giscard d'Estaing as French President in late May 1974, the framework for a closer cooperation between Paris and Bonn had significantly changed.

A few days earlier, Schmidt had been elected as Chancellor after Brandt had resigned because of an espionage affair for which other ministers of his cabinet had been responsible. His Chancellor's Declaration of 17 May 1974 stressed the central concepts of 'continuity' in foreign, European and domestic policy and 'concentration' in the policy of internal reform. The new problems triggered by the oil price shocks were only mentioned briefly. They were closely linked to his central political goal of overcoming the global recession, that by now had also reached the Federal Republic, before the 1976 election, to create room for reform in his own country as well as in Europe.

Instead of 'world recession' he often used the term 'world economic crisis'. The crisis of the years since 1929/30 and its catastrophic political consequences had overshadowed his youth. At the same time this concept explained the structural causes of the crisis. He observed this in the weakness of the US dollar in the aftermath of the financing of the Vietnam War and the associated global inflation and afterwards in the effects of the oil price crisis. He referred to these two causes in his speeches again and again. Their consequences, the decline in the capability of the US after the Watergate Affair to lead the West not just politically but also economically and in the area of currency policy, were among his major concerns, though he only referred to them in private. And so he constantly tried to reduce the pace of the political continental drift that threatened to separate the United States from Europe, all the more so as more flashpoints began to occur in southern Europe.

The end of the dictatorships in Greece and Portugal was a sign of hope. But the subsequent governments relied on assistance which was directed primarily to Bonn. Added to this was the occupation of northern Cyprus by Turkey, which further shook the already delicate south-eastern flank of NATO. More dangerous in the short term were the signs of decay within the EC. He believed that he could compensate for the withdrawal of France from the 'snake' in January 1974 through close cooperation with Giscard d'Estaing. More difficult was the announcement by the new Labour Government in early April 1974 that it wished to renegotiate the terms of membership. Given the divisions within the Labour Party on the EC question, in the background the threat of leaving the community if the conditions were not met was no empty one.

Schmidt had always supported British EC membership both on principle and also for reasons of security and trade policy. It was very much through his efforts, supported in publicity terms by a skilful appearance at the Labour Party Conference in November 1974, that the EC summit in Dublin in March 1975 was able to come to a conclusion which was accepted by the British electorate in a referendum with a two-thirds majority in May 1975.

Even more serious were developments in Italy, where the government had raised tariff barriers again in late April 1974. The EC Council of Ministers reluctantly approved this approach for a short period of time. Even the European Fund for Economic Cooperation that had just been created was made use of by Italy to tide itself over its balance of payments problems. Because of huge budget deficits, equivalent to about 8 % of the gross national product, these subventions were insufficient. In the summer of 1974, Italy faced financial collapse.

In late August 1974, Schmidt reacted personally to an urgent request by the Rumor government. He flew to Italy to negotiate with Rumor the level of the currency deficit of the Federal Bank which amounted to five billion Deutsche Mark (US \$ 2 billion).

The loan was covered by the pledge of a portion of the gold holdings of the Bank of Italy. Was now, as 'Newsweek' wrote, Germany "Italy's Godfather" instead of the US? The quote played on the name of the movie "The Godfather" about the American Mafia, running in Germany under the title "Der Pate". It was certainly a grotesque exaggeration. But the quick reaction of Schmidt was a signal in several directions: Bonn was ready to help, bilaterally if necessary, but not without a guarantee. This was to ensure that other partners would limit their demands. What was clear to the French leadership was the revaluation of the pledged gold—an ongoing point of contention between Paris and Washington—at 80 % of the price on the London gold market.

Ultimately, it was necessary to persuade Italy to accept new initiatives to coordinate national economic policies and to achieve a limited institutional reform of the EU that would enable rapid joint action. For these Schmidt had argued in consultation with Giscard d'Estaing in September 1974 at an informal meeting of the Nine in Paris; the ideas included an improved decision-making process among the Council of Ministers, enhanced strengthening of the position of the foreign ministers in particular and their political representatives, direct elections to the European Parliament, a passport union, and cooperation between Ministers of the Interior to curb cross-border crime, together with an overall shift in decision-making from the Commission to the Council of Ministers.

This question was discussed at the EC summit conferences in the following two years. There was progress in direct elections to the Parliament, although the British maintained their reservations, as well as in the passport union. In agricultural policy, everything remained largely the same, because here Schmidt had to give special consideration to the French partner which was under heavy pressure from the Gaullists.

Schmidt's mediation between the French and American positions on the issues of the international monetary system and collaboration with the oil- and

commodities-exporting countries had only limited success. A preliminary conference took place in Paris in April 1975—initially cancelled because of a dispute over the extent to which the oil countries should be included in the reform of the IMF and the monetary system, but resumed in the autumn of 1975.

Meanwhile, the global recession had become more entrenched in Europe, not least in the Federal Republic, than Schmidt had expected. A package of measures, together with a reduction in income tax from 1 January 1975, pumped around 35 billion DM of public money into the economy, but this could only absorb to a limited extent the missing export demand. In the first two-quarters of 1975, the demand slumped to 40 %.

In April 1975, German exports to the United States—at other times an expanding market for German industry—only amounted to 55 % of the April 1974 figures.

In the winter of 1975 the number of unemployed in the Federal Republic exceeded the one million mark for the first time since 1955. For the second German democracy whose political legitimacy still very much depended on increasing economic and social prosperity, this was a severe blow.

Just before he became Chancellor, he had recommended in a review of the SPD carried out for the SPD leadership concentrating in public debate on those problems that the party could solve. Only thus could the party prevent the “fear gap” among its own supporters—loss of faith in the ability of politicians—from becoming even wider. Despite criticism from within his own party ranks and from the parliamentary opposition, in public he largely adhered to these tactics.

In discussions in internal party committees and in meetings with US President Ford and with French President Giscard, with whom he developed a special relationship of trust, he expressed himself in general more forcefully—in particular, when it was a question of gaining the support of Ford, who held conservative views on fiscal and economic matters, for a summit of the major industrialized states of the West that Schmidt proposed in the spring of 1974 and to which Giscard agreed in autumn 1974.

When Ford was in Bonn immediately before the meeting of the *Conference on Security and Cooperation in Europe* (CSCE) in Helsinki in late July 1975, Schmidt tried to persuade him and Kissinger that the West faced the biggest political crisis since the Second World War. Nothing less than the functioning of democratic states in the West was at stake. Up till then, heads of government would meet immediately during foreign and security policy crises. When economic crises occurred, they would only send their experts to propose solutions. Half the problem consisted of psychology. If the OPEC countries increased their prices again in the autumn—the Shah demanded an increase of 30 %—the general pessimism would be reinforced. The major industrial countries of the world should be able to say that the problems had been identified and would be tackled together. This was more important than what they could do. To Kissinger’s argument that the *International Energy Agency* (IEA), established the year before, should not be allowed to fail, otherwise the trees of OPEC would grow to the sky, Schmidt answered that the IEA would be unable to absorb a confrontation with OPEC. Its

only result would be three million unemployed in Germany. This, he added, “we would not be able to endure”.

Was it for him simply a matter of gentle persuasion in public? Certainly. But his ideas, as he summarized them at the end of July 1975 in a private memorandum for the participants of the Economic Summit, went further, and included not only the reform of the IMF and revenue stabilization for developing countries who exported raw materials, but also a concerted effort by the central banks of industrialized countries to cut interest rates.

His view of the world and of the role of the Federal Republic in this world had significantly changed since 1972: “We are living in a universal system of mutual dependence of nations and of total interdependence of political decisions”. This was an assessment he offered at a foreign policy conference held by his party in January 1975. For the leading trading state, the Federal Republic, there was indeed increased dependency on oil and raw material imports and an increasing risk of the import of inflation and deflation, but there were also opportunities to interact with other industrialized countries, and through cooperation with the nascent powers (due to their control of oil supplies) to bring these additional asymmetries (besides those in security policy) into a certain balance and to increase interdependencies in order to create a basis for stable change.

How might this change look for the Federal Republic in a “world” which had “through communications technology become in the meantime a village”? In June 1975 he had sketched an answer in the following way: given high labour costs and stable population figures, structural changes are inevitable. They force companies to concentrate on more advanced processes and products.

“Simplistic and typecast”, one might say: on the horizon of the year 2000 appears an era in which economies like the German economy would export mainly patents, process technologies, and blueprints. This restructuring would initially require broad basic research and applied research, laid out as intelligently as possible, which should be financed not only by the public but also by the company itself.



Chancellor Helmut Schmidt speaking in the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

Schmidt stated that there is no advantage to be gained by trying to steer the development of business sectors through tax policy. Not only is the predictive skill of government bodies (including scientific agencies) limited, as can be seen in the way the evaluations by the Expert Advisory Council (Sachverständigenrat) differed significantly from reality. They produced their evaluations using global data. If they had focused on individual sectors—with investments lasting 7, 10 or 15 years—then errors in forecasting of 100–200 % would have been conceivable.

For this reason, he found the model calculations of the Club of Rome and the forecasts derived from them oversimplified. He understood these mainly as regulatory ideas, whose goal was to become more independent of scarcer and more expensive raw materials through innovations in research, development and production.

These learning processes of Schmidt's occurred during the accelerated phase of the transition from the "national economy" to the "global economy", a central concept that he advocated emphatically. This hypothesis was, however, always supported by the expectation that the global economy would not just develop spontaneously or even chaotically behind the backs of political actors, but that it could be guided by them at least partially towards stable development.

Such hopes also accompanied the first economic summit, which took place in mid-November 1975 in Rambouillet castle south-west of Paris. The castle could be extensively protected, and the event resembled more an intensive seminar for top managers than the usual summit conferences of the EC or NATO. Each of the six participating heads of state or heads of government introduced a specific agenda item—from the general economic situation to currency problems, from

relationships with the oil- and commodities-exporting countries to trade with the East.

It is less easy to see the value of this undertaking from its final declaration, which included a number of reasonable common objectives—to accelerate the Tokyo Round of global tariff reductions, to stabilize the revenues of the resource-exporting developing countries, to conserve energy, and to develop alternative energy sources, as well as to reform the monetary system—but with no binding force.

The study of the minutes is more productive. It shows how opinions and positions changed in the course of discussions. The question was whether this learning process would continue. Ford had overcome his initial scepticism and in late June 1976 issued invitations to “Rambouillet II”, which took place in a secluded golf hotel in Puerto Rico. In the meantime, Canada had joined as the seventh participant.

At the following two meetings of the G-7 in London in 1977 and in Bonn 1978, Schmidt and the Japanese prime minister Fukuda had agreed to revive export demands through tax cuts and investment programmes of the order of about 1 % of their gross domestic product. The idea that the Federal Republic and Japan were ‘locomotives’ of the global economy received new impetus in the comments, although Schmidt personally believed that it had failed.

According to the agreements reached at the Bonn World Economic Summit in July 1978, the net debt of the public sector in the Federal Republic had to be once again set higher than originally planned. Given the high private saving rates and the relatively low interest rates, this was hardly at the expense of business investment. These were significantly more affected by the instability in the currency markets which turned the investment plans of companies with high export shares into wastepaper overnight. Schmidt had approved the recommendations to increase demand not least because he wanted to help President Carter in the fight against inflation as well as with the reduction of oil imports. In the last analysis, resistance by Congress was particularly stubborn. After the Bonn summit American comments indicated that Carter had not remained unaffected by Schmidt’s considerations: in his eyes the current difficulties in the global economy were complex and could not simply be solved with a Keynesian approach through increased public spending and an increase in the money supply. Obsolete production facilities in industrialized countries and the emergence of new industries in emerging markets required differentiated solutions, as did energy and environmental problems.



President Jimmy Carter and Chancellor Helmut Schmidt, 13 July 1977 in Washington, D.C. Source Photo by Jack E. Kightlinger, White House photo (Public domain), via Wikimedia Commons; at: http://commons.wikimedia.org/wiki/File%3ACarter_und_Schmidt.JPG

The cautiousness in the objectives as they had been formulated at the Bonn Summit in contrast to the one in London (1977) was due according to the *New York Times* to Schmidt's 'conservative' influence. 'Conservative' in the American understanding was the opposite of 'liberal' in Roosevelt's New Deal which Carter followed, and meant progressively less direct state influence on economic affairs.

Thus Schmidt's policy was certainly not sufficiently contextualized. After all, he was one of the most vocal defenders of the welfare state, of a European and German character. What made him act cautiously at the Bonn summit was the recognition that unilaterally understood Keynesianism, implemented as increased government debt without a qualitative transformation of social security systems and without any stimulus towards structural innovations in the economy, would do more harm than good in the long run.

In early 1979 the second oil crisis emerged, triggered by the fall of the Shah's regime in Iran and exacerbated by the Arab oil states' criticism of the resolution of the conflict between Israel and Egypt achieved through the mediation of President Carter, but which had left the question of the autonomy of Palestine unresolved. The political and economic approaches seen since 1975 to the overall strategy of the Western industrialized countries were more at risk than in the three previous years.

The immobility of US domestic politics meant that the Carter administration could not achieve its aim of economic leadership. However, the Europeans felt more and more the negative consequences of the weight of American consumer

habits. Not for nothing did Carter's Energy Secretary James Schlesinger say self-critically, "American drivers believe that the Declaration of Independence gives them the right to consume 60 % of the gasoline in the world".

At the economic summit in Tokyo in late June 1979, quantitative targets for oil imports were adopted for the first time under the pressure of a further price increase by those oil-exporting countries who were members of OPEC. While the four EC countries that were present in Tokyo committed the entire community to a quota for oil imports, which were to be kept at 1978 levels until 1985, Japan, Canada and the United States would only accept 1979 as the starting year.

Behind this was their intention to replenish their oil stocks in the second half of 1979 as well as to lay on additional supplies. From this it could easily be seen that the targeted savings would either not be met or only be met to a small extent. In the sense that Schmidt saw the main function of the G-7 meetings as preventing catastrophic structural changes in the world economy, the Tokyo agreements were nonetheless "helpful". In addition, each participant was free to do more in their own country, as Schmidt announced in a subsequent interview with German journalists; shortly afterwards he presented concrete proposals in parliament and in cabinet.

In the weeks after the meeting in Tokyo President Carter also made another attempt to introduce an energy-saving programme with more ambitious objectives than the commitments made by him in Tokyo. Most of his proposals failed in the Senate because of the attitude of the vast majority of American voters described above.

In contrast to the first oil crisis of 1973, which increasingly made the weaker EU countries objects of international currency speculation, during the second oil crisis of 1979 there were no such sudden fluctuations in exchange rates within the EC.

The most important stabilizing factor during 1978 proved to be the *European Monetary System* (EMS) which came into force on 1 April 1979. It had first been conceived and promoted by Schmidt and Giscard d'Estaing as an agreement between the central banks of the participating countries.

Although further stages of monetary integration that had been planned did not take place and in the 1980s, one or another currency temporarily left the intervention mechanism of the EMS, this association had refuted the sceptics who thought that an "inflation community" would be formed within the EC from which the D-Mark would be unable to escape. Rather, the EMS contributed significantly not only to a downward trend in inflation, but also to a decline in the differences in the level of interest rates between member countries. These were important prerequisites for a much greater convergence of economic policies than before that made possible further steps towards an Economic and Monetary Union in the 1990s.

After the Bonn Summit of July 1978, the *Wall Street Journal*, not usually given to hyperbole, wrote that the Federal Republic was "no longer a bashful giant, but a world power, economically, and increasingly also in the political sense". Schmidt dismissed such exaggeration; he always remained aware of on how fragile a political and economic base his own country rested.

In the end, as a temporarily central actor in the 'économie dominante' in Europe, he paid a high price for his participation in international economic and monetary policy. He was not always able to fully use opportunities for national action, for example in the fight against inflation and in limiting public debt, because of the need to take neighbours into account. Hence the number of veto players in his own country increased. They were present in his own party and in his liberal coalition partner, as well as in the Bundesrat and in the Federal Bank, in business associations and in trade unions. Along with the economic decline of the early 1980s, partly caused by the second oil crisis, and the increasing cost of social welfare, they contributed to the loss of political support that resulted on 1 October 1982 in a change of coalition by the majority of the liberal members of the Bundestag, who ousted Schmidt as Chancellor.



Chancellor Helmut Schmidt speaking in the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

What began in 1972 with Helmut Schmidt's work in the national and international economic and monetary policy field has often been referred to as mere crisis management. That it indeed was when the situation demanded quick decisions. But these were usually so carefully designed that they did not lead to new dead ends along the lines of "Beggar my neighbour" as in the 1930s, but to new forums and forms of international cooperation between the major industrialized countries that allowed that the interests of the oil- and other commodity-producing countries to be considered.

It should not be forgotten that he was not at the top of a supranational institution such as the United Nations or the European Community, but as a national political player always had to keep the interests of his own country in mind.



Chancellor Helmut Schmidt and Vice Chancellor Dietrich Genscher in 1982 in the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

How much he has remained, even after his chancellorship, a pioneer of a sensible orderly world economy for the past three decades, is shown by numerous books and public contributions dealing with the process of globalization of commodity and financial markets, as well as the deregulation of recent years, all analysed by a keenly critical commentator.

In the declining appetite of many politicians for international cooperation in economic and monetary policy since the 1990s, and in the excessive deregulation of the banking and financial system during the 1990s, he justifiably saw a central cause of the persistent economic and financial crisis since 2007 and 2008.

In the accession of new players like China, India and Brazil to the G-8 states he sees a chance to put into a sensibly designed framework the chaotic processes of the financial markets to which policymakers can only react, usually to the detriment of taxpayers, and at the same time to strengthen cooperation between international organizations such as the IMF and the central banks.

For all these reasons Helmut Schmidt has become since the 1970s a *pioneer of international economic and financial cooperation* both as a leading party politician, as an experienced active policymaker, as a dual Minister of the Economy and Finance (1972–1974) and as Chancellor of the Federal Republic of Germany (1974–1982); and since his retirement from active political life in 1982 as an independent and influential analytical and forward-looking political thinker, analyst and commentator whose assessments are considered by policymakers and discussed by the readers of his books and columns in *Die Zeit*, which he has published for the past three decades.

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Chancellor Helmut Schmidt and Prof. Dr. Hartmut Soell in 1982 as members of the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

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Part I

On Chancellor Helmut Schmidt



Chancellor Helmut Schmidt addressing the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes



Chancellor Helmut Schmidt addressing the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

Chapter 1

A Short Biography of Helmut Schmidt

by Hartmut Soell

Helmut Schmidt was born in Hamburg on 23 December 1918. He thus belonged to the age-group of whom it was said in the heated chauvinistic atmosphere of the Weimar Republic: “Born in the war, for the (next) war.” His parents’ roots were half working-class, half lower-middle-class, typical of rapidly growing Hamburg in the late nineteenth century. Through intelligence and immense diligence his father had progressed from elementary school to become a teacher and then the head of a trade school. Discipline and achievement were the standards by which the young Helmut Schmidt was brought up. In 1933, he learned from his mother that his grandfather on his father’s side was Jewish—something that changed his psychological make-up profoundly. Youth’s penchant for rebellion was subdued and prudence and caution were often the rule even where temperament and intelligence called for open criticism of the dictatorship and the war. Where this did not entirely succeed, as in autumn 1944, considerate military superiors transferred him to the Western Front where the military arm of Nazi blood justice could not reach him.

This text was written in German, translated by Hans Günter Brauch and carefully language-edited and corrected by Mr Michael Headon (Colwyn Bay, Wales, UK). See the author’s two volumes of his professional historical biography of Helmut Schmidt: Hartmut Soell: *Helmut Schmidt. Vernunft und Leidenschaft* [Reason and Passion] (Munich: Deutsche Verlagsanstalt, 2003); and Hartmut Soell: *Helmut Schmidt. Macht und Verantwortung* [Power and Responsibility] (Munich: Deutsche Verlagsanstalt, 2008).



Helmut Schmidt as an Air Force second lieutenant in spring 1940. *Source* North German Radio (NDR). This photo is part of a photo series that may be accessed free of charge at: http://www.ndr.de/geschichte/koepfe/schmidtbildergalerie100_p-13.html. By courtesy of NDR

He had the good fortune to survive military service, war and British captivity. It is widely forgotten that Schmidt belonged to a generation that had every right to be considered an “angry generation”, since even though they had survived, they had been cheated out of 10 years of their life—the most important years—by Hitler and his cronies. Yet they were not able to express their anger. It was not until after the war that most Germans, even the soldiers, learned of the extent and the depth of the barbarism of the Nazi regime, and so their country gained overnight the face of a monster that silenced every cry of rage. Their patriotism and their sense of duty had been abused by the regime for the purpose of conquering *Lebensraum* in the East, making it a death-trap for Jews, Poles, Russians and other ethnic groups. That shaped him and drove him decades later again and again, but at the same time created the unspoken party political consensus of ‘never again’.

After the war he was not able to follow his muse—originally he wanted to be an architect and urban planner. He chose the bread and butter path of economics instead. He graduated after only three and a half years’ study, despite having been chairman of the *Socialist Students’ Federation* (SDS) in the Western zones; he then spent 4 years at the Hamburg Ministry of the Economy and Transport—first as assistant to Senator (State Minister) Karl Schiller, later as head of a department and president of the Office of Transportation. From 1953 to 1961 he represented a Hamburg constituency as a member of the Federal Parliament (Bundestag), where he worked in the fields of economic and transport policy, and later increasingly on defence and security policy. From 1961 to 1965 he served his native city as interior minister. Through his energetic intervention during the floods in February 1962—he had been in office only 2 months—he became a nationally known figure, whose name was henceforth always mentioned when top positions came up in Hamburg and Bonn.



Helmut Schmidt as Senator for the Interior in the State of Hamburg in 1962 honouring soldiers for their involvement in protecting the citizens during the flood of 1962. *Source* North German Radio (NDR); This photo is part of a photo series that may be accessed free of charge at: http://www.ndr.de/geschichte/koepfe/schmidtbildergalerie100_p-13.html. By courtesy of NDR

Willy Brandt, whom the SPD had nominated as their candidate for chancellor in the federal elections of 1961 and 1965, appointed him to his government team (shadow cabinet). He was to take over the post of defence minister—a post conceived as particularly negatively charged in the eyes of many Social Democrats due to experiences from the Weimar Republic. As it was, the SPD had already at the beginning of the first democracy failed to integrate and control military power in a parliamentary democracy in a satisfactory way. During the second German democracy they had much better success. Other politicians from his own party as well as from other parties attributed this to Schmidt's skills.



Helmut Schmidt as Vice Floor leader of the SPD addressing the Bundestag in April 1966. *Source* North German Radio (NDR). This photo is part of a photo series that may be accessed for free at: http://www.ndr.de/geschichte/koepfe/schmidtbildergalerie100_p-13.html. By courtesy of NDR

In addition, he had distinguished himself as a critic of the current defence doctrine of NATO. In his first book, *Defence or Retaliation?* (1961), he had offered a precise analysis of the potential for survival of his country in a conflict involving nuclear weapons, and had concluded that so-called tactical nuclear weapons had the sole purpose of deterring a potential enemy from using these weapons, either directly or by way of political threats.

He argued that conventional forces on the Western side should be equipped in such a way that they could sufficiently deter an enemy, by the use of force if necessary.

He was also the first Western politician to put forward detailed proposals for reducing conventional forces in Central Europe. This book has been reprinted several times and was also published in France and Britain.

After the federal election of 1965 Willy Brandt initially remained as Governing Mayor in Berlin. Although he had won additional votes he missed his goal of becoming Chancellor. Schmidt gave into pressure from the SPD leadership and returned to Bonn where he became Deputy Leader of the SPD in the Bundestag. After the early death of Fritz Erler in February 1967, the party chose him as Erler's successor. A year later—again, in the wake of Erler—he was elected Deputy Chairman of the SPD.

In these two roles Schmidt, together with the parliamentary chairman of the CDU/CSU, Rainer Barzel, had a lasting influence on the policies of the Grand Coalition, in power in Bonn from December 1966. The way he controlled the SPD, steering it through the narrows of the Grand Coalition, taking up and integrating ideas from different parts of the party, established his influence on the body that decided day-to-day policy in a way that later benefitted him as minister and chancellor.

There were other important influences. There was a vigorous debate on a constitutional amendment concerning the removal of the allied rights of reservation over German domestic and foreign policy and designed to ensure the rights of Parliament and the fundamental rights of citizens in the event of disasters and military conflicts. Nevertheless, he succeeded in establishing a cooperative relationship with the trade unions, who had initially feared a reduction of their rights. A number of union leaders collaborated on the SPD's Co-determination Committee (*Mitbestimmungskommission*), which he directed. In January 1969 he submitted a draft law to extend the participation of employees in large companies, something which previously had only applied to the mining and steel companies.

In October 1969, when the Grand Coalition was dissolved and replaced by the social-liberal coalition, the various political opportunities he had as Chairman of the parliamentary party made him briefly reluctant to take over the Ministry of Defence. However, since he saw the opportunity to put through a programme to reform the armed forces that he had developed a few years earlier, he took the expedient course. Among the problems suffered by the Bundeswehr were excessive bureaucracy, overly complicated and error-prone weapons technologies, a lack of qualified officers and non-commissioned officers, low social status and lack of integration into civil society. Not the least cause of these problems was the

generally very conservative and in some places even reactionary corps of military leaders.

During his relatively short time, just over two and a half years, as minister of defence, he succeeded in setting in motion a significant number of much-needed reforms. The necessary decisions were made in a climate of opinion within the SPD and in the public in general where the initial success of détente with Germany's eastern neighbours had led to doubt about the need for defence efforts. Schmidt found the answer to the basic question of how to lead an army in times of radical change:

- in particular through extensive discussion in dozens of events in which thousands of soldiers of all ranks took part—to the surprise and often to the dismay of the officers of the old school
- through the setting of targets, facilitated by this comprehensive survey; these were reflected in the proposals for reform made in the 1970 White Paper, most of which were realized over the next 2 years.

The establishment of universities for the Bundeswehr was one of the reforms with the most significant consequences. These were established after plans to organize intensive courses for officer candidates at public universities were thwarted by the opposition of the great majority of university rectors. They feared a rekindling of the student unrest of the late 1960s.

Of even greater political weight for external security was his demand that the primacy of politics be acknowledged by a German veto in the planning and use of 'tactical' nuclear weapons—he was the first German politician to make this demand since 1965. His demand succeeded, first for 'nuclear mines' deployed near the border, later for any tactical nuclear weapons of the United States to be launched from German soil or at German targets.

In contemporary reports of Brandt's Ostpolitik in the years 1970–1972 it was often claimed that Schmidt had been sceptical or had rejected Brandt's policy outright. This idea had a certain influence on contemporary historical studies. What was generally ignored was that Schmidt had made a significant contribution to the spelling out of the Social Democratic Ostpolitik and policy of détente at the SPD's Dortmund Party Conference in June 1966, where he had drafted and proposed the resolution on "Germany's policy under changing international political conditions", adopted with a large majority. Moreover, he had explained in detail the basic elements a few weeks later in talks in Eastern European capitals—in Prague, Warsaw and Moscow.

In August 1969, a year after the Soviet invasion had put an end to the 'Prague Spring', he had insisted in a heated debate in Moscow with the Soviet Foreign Minister Gromyko not only on the incompatibility of this intervention with détente as propagated by Moscow, but he had also insisted that the recognition by a future Social Democratic-led Federal Government in Bonn of the realities in Central Europe that had existed since 1945 would not be possible without a solution guaranteed by the four powers for the safety and viability of West Berlin.

Following on from this, as minister of defence, he supported the agreements with Moscow, Warsaw, Prague, and East Berlin that had been signed by Chancellor Brandt and Foreign Minister Scheel. He acted as a kind of firewall against the recurrent suspicion in Western countries that Bonn was going too far in the extent of its agreements with Moscow and East Berlin.

However, he emphatically insisted that the first phase of *détente*, with its contractual fixing of the territorial status quo, should be followed immediately by the second phase, with concrete agreements between East and West on the reduction of conventional forces in Central Europe. In this way he was returning to the proposals he had made more than a dozen years previously and promoted in the years since, as mentioned above. Prior to the Conference on Security and Cooperation in Europe, Moscow agreed in 1973 to negotiations on such *mutually balanced force reductions* (MBFR).

This was one of the problems he had to deal with as Chancellor, though his main attention was initially focused on combatting the consequences of the dollar crisis and the oil price crises by strengthening national and European economic and monetary cooperation (see the Preface and the texts in part II).

Up to the late 1980s, the Soviet Union rejected all proposals from the West, although the West was prepared to begin with small steps. In an internal discussion among the Soviet leadership under Gorbachev in May 1987 the leading Soviet military officer, Marshal Sokolov, acknowledged that the states of the Warsaw Pact, as the West had assumed, actually possessed in Central Europe a troop strength that was superior to that of the West in the region by 170,000. Of these troops, 70,000 were of Soviet origin.

Gorbachev had already taken bold initiatives in the field of medium-range missiles. Here he was aware, as he himself admitted to Schmidt in March 1992, that Schmidt had launched this debate a decade earlier with his London speech of 28 October 1977 on the specific threat facing non-nuclear states in Western Europe from SS-20 missiles that had been in position since 1976.



Chancellor Helmut Schmidt and his wife Loki who were married for 69 years (1942–2010). *Source* North German Radio (NDR). This photo is part of a photo series that may be accessed for free at: http://www.ndr.de/geschichte/koepfe/schmidtbildergalerie100_p-13.html. By courtesy of NDR

At that time, according to Gorbachev, Secretary Brezhnev had proposed to the Politbureau, in the wake of Schmidt's constant urging, that they should begin negotiations. However, the general opinion was "We have the SS-20 and the other side has nothing like it. Why should we negotiate?". When he himself became Secretary General in March 1985 he had first talked about this issue with scientists and representatives of minority opinions within the party leadership. They advised him to extract himself from the quagmire that Soviet policy had brought about through its previous attitude with an offer of negotiation. With the stationing of precisely-targeted Pershing II missiles, the West had created a strategic counter-option in Europe. The pendulum had swung with his visit to the anti-missile sites surrounding Moscow. Gorbachev's question to the commanding general as to whether the anti-missile systems could also intercept Pershing II, as the military had always insisted to the Politbureau, had been answered in the negative.

Thus in 1987 came the adoption of the NATO Double-Track Decision policy that had been inspired by Schmidt and which he continued to support after his time as Chancellor had ended, though it was fiercely criticized by sections of peace-motivated Western public opinion as well as within his own party.

Although Schmidt expended much time and energy in dissuading the Soviets from their policy of the pursuit of absolute security, which was a consequence of their experiences in World War II, because it was at the expense of the security of the West, he did not leave it at that. In May 1978, during Brezhnev's visit to Bonn, he realized a long-held idea: an "Agreement on the development and consolidation of long-term cooperation between the Federal Republic of Germany and the Union of Soviet Socialist Republics in the field of science and industry", extending to 25 years.

As the name indicated, it was not only the spectrum of industrial exchange that was to be extended. Banks, insurance companies, logistics companies and trade fair organizers were all to cooperate and to bring in companies from other countries. The expansion of the Agreement on Berlin (West), which had foundered in most other fields of German-Soviet cooperation, was here effortlessly achieved. This contributed to Soviet interest in this Agreement being estimated highly in Bonn.



Talks of Soviet president Leonid Brezhnev and Chancellor Helmut Schmidt. *Source* North German Radio (NDR). This photo is part of a photo series that may be accessed free of charge at: http://www.ndr.de/geschichte/koepfe/schmidtbildergalerie100_p-13.html. By courtesy of NDR

Schmidt's expectation that political and socio-economic change would not pass by the Soviet Union in the long run was not wrong. But given the inflexibility of the ageing leadership in the Kremlin, results in the economic realm which might also have positive effects on security policy were not to be achieved in the short run. The structure of central planning and the special role of the military were too strongly anchored and their associated ways of thinking were grounded too deeply for anything to be set in motion. Only with Gorbachev and his team was there any success in this area, and then only partly.

In this regard, Schmidt had clearly reached the limits of his ability to influence events before the end of his term in October 1982. This ability had already, based on his reputation, reached a level in the eyes of some neighbouring countries and of the big ally across the Atlantic well beyond that of the head of government of a middle-ranking non-nuclear power carrying an enormous amount of historical baggage and in a highly exposed geopolitical situation. This reputation was not only due to his personal appearance at international conferences, his rhetoric presented in fluent English, his conceptual strength and his ability to take a step back at the right time and to compromise. It was also due to astonishment based on

respect and envy at the degree of social, economic and political stability which the Federal Republic had reached as no other European industrial country had, despite the dollar and oil price crises.

The slogan “Model Germany”, used briefly in the 1976 federal election campaign by Kohl when he was CDU/CSU candidate for chancellor, then subsequently and to a greater extent by the SPD, was not very much appreciated by the electorate and then quickly disappeared into oblivion. It continued to have an impact on the Western public where it was interpreted less than originally feared as a sign of German arrogance. Important elements of this German model were attributed to Schmidt’s policy.

Significant social changes were implemented as part of the reforms: in marital and family law, in criminal and penal law, and in juvenile law. New ground was broken in the opening-up of the social security system, in the transferability of occupational pension entitlements, and in the promotion of vocational and general education, technology and science. Not the least was a focus on research into the use of solar energy and other renewable energy sources, the first time this had been carried out to a significant extent.

A big step was made with the expansion to all large enterprises of the existing rights of participation held by workers in the mining and iron and steel industries and their trade unions. In the years and decades following, this allowed thousands of works committees and trade union representatives to acquire knowledge and experience in the area of the management of large companies, something not available to workers elsewhere in the world. This law not only expanded their rights but also contained obligations to respect the welfare of the enterprise.

This was a key element of Schmidt’s practical social philosophy.

By all accounts, he can claim that by the early 1980s, at a time of global economic crisis, he had successfully integrated the major social groups in the Federal Republic, unlike in a number of other industrialized countries. This achievement was based not only on improved institutional and economic conditions, but also on the fact that he spent many hours in numerous individual and group discussions, in public and workplace assemblies, and in meetings of trade unions and employers, trying to persuade people to his views and seeking and dispensing advice. These economically and socially productive groups and associations formed his most important political milieu.

Their thinking and their actions were closest to his own. Here he was always aware that it was not about the summoning of a purported social idyll, but about the conflict between socio-economic interests where policies were implemented through law-making, through budgetary policy, and as a public service employer. He was a co-creator, but had to restrain from direct intervention in labour disputes. Integration through social balance as well as through regulated conflict regulation was, in a nutshell, the basic pattern of Schmidt’s way of government.

The downside of Schmidt’s achievements in integration was that he was always heavily exposed to pressure from his industrial interlocutors when it came to protecting the environment. Here the interests of the larger social groups converged at least partially—those of the trade unions out of concern for the

preservation of jobs and those of the employers and their organizations who were worried about international competition.

This pressure did not stop environmental laws being passed. With the establishment of the Federal Environment Agency (1974), and half a dozen laws, the policy launched by Brandt of protecting the environment was continued more intensively under Schmidt than in any other major industrialized country. But pressure from organized interests often meant that limits were changed for their benefit and transitional periods were extended.

In energy policy, he aimed for a mixture of several energy sources, including a limited amount of nuclear energy. He was initially sceptical about the use of nuclear energy and later on remained unenthusiastic. What he really wanted was to release the technological and scientific potential of nuclear energy, as well as to allow unimpeded access to nuclear fuel.

This was all the more important as neighbouring France, where society had been less ambivalent towards nuclear technology than in the Federal Republic, had built nuclear power plants in large numbers. As early as 1979 he pointed out that at the end of the century concern for global warming caused by the combustion of fossil fuels would involve many other dimensions. Intra-party criticism of nuclear energy did not persuade Schmidt since a number of its proponents had several years earlier vehemently supported its use.

The political area in which Schmidt scored his most spectacular success—the defeat in autumn 1977 of the *Red Army Faction* (RAF) terrorist group that had evolved from the extreme left of the student movement in 1970—was also that where domestic and foreign relations were particularly intertwined. The freeing of the hostages in Mogadishu tore significant holes in the international network that had been used not only in Germany by terrorist groups.

Immediately following the kidnapping of Hanns-Martin Schleyer, the president of the employers' and industry associations, in early September 1977, Schmidt had been warned by close associates that he should take over responsibility in an internally and externally visible manner for decisions concerning the pursuit of the kidnappers and the efforts to free Schleyer, as well as later for the attempts to free the hostages in the hijacked Lufthansa plane *Landshut*. Schmidt did not follow their advice because he saw that the democratic state governed by the rule of law that he and those like him had created was being directly threatened by the Red Army Faction's terrorism. He saw their efforts at blackmail as a personal challenge.

For what Max Weber called the criterion for responsible political action, "the ruthlessness of the gaze trained in the realities of life and the ability to endure and to cope with them inwardly", Schmidt paid a high price. How close these decisions brought him to psychological situations on the edge was something that he shared only with a few observers. One of them was his friend Giscard d'Estaing, with whom he often spoke several times a week, usually by telephone. On 13 September 1977 he told him that he was receiving demands from all sides, even from politicians, to shoot captured terrorists.

Besides Schmidt's leadership performance during these 6 weeks in the autumn of 1977—his successful effort to keep the de facto party coalition together as the great circle of advisers even though public disagreements between the parties continued—his admission in his Bundestag speech of 20 October 1977 is important: as he saw it, he had done everything that was humanly possible and yet could not remain without a feeling of guilt that he had not done more.

The release of the hostages of the *Landshut* in Mogadishu in Somalia by the GSG 9 counter-terrorism unit, for whose use he bore the ultimate responsibility, was an important milestone in the process of self-recognition of the Federal Republic, because it showed that the democratic state was able, even under difficult conditions, to protect its citizens. The fact that the outcome was very fortunate does not diminish the value of the result.

Schmidt's understanding of politics as that which is 'feasible' has often led to the accusation that he would lead the Federal Republic too little through 'intellectual politics', and so insufficiently morally. But a closer look shows that he is not worse than his predecessors and successors in this respect, but better.

With his sober understanding of politics, he often liked to tease people and said sarcastically that people who had visions like the saints in the Middle Ages who watched the paradise should go to the doctor, but he knew well how to ground the specific value horizon to which he was committed in reality.

Schmidt was more familiar than most other politicians in Bonn with modern social theory just as much as with classical philosophy. Long before he was able to hold discussions with Karl Popper personally, he felt that Popper confirmed him in his understanding of politics, which was that it should aim at the prevention of *unhappiness* among the citizens, rather than promoting their personal *happiness*.

Similarly, it was clear to him that the method of trial and error was the path to gradual reform. He was completely convinced by the concept of the open society, which had to prove itself in dealing with totalitarian ideologies and authoritarian regimes. His reading of Popper, suggested to him by younger social scientists, led him to Popper's starting point, to Kant and his 'critical reason': that it was more important "instead of discovering truths [...] to prevent errors". As the man of duty that to a great degree he had become, he found himself again in agreement with Kant's view that the main criterion for the morality of an act is absolute duty. Schmidt has therefore described his own approach to action as "pragmatic action for moral purposes".

A professional philosopher has argued that, for Kant, pragmatic action was subordinated to moral action. There is evidence for this. However, the concept of pragmatism had several meanings for Kant: it is not only about acting for one's own benefit, but also "providing for the general good", essentially "knowledge of the world" acquired so that it may be "useful not only for school but for life". Hence Schmidt's definition was fair enough.

Later, other Kant specialists confirmed that Schmidt was entirely right to continue with this understanding of Kant. Not least because of this controversy, in November 2007 he was awarded an honorary doctorate of philosophy by the philosophical faculty of the University of Marburg, undoubtedly one of the most



French President Giscard d'Estaing and Chancellor Helmut Schmidt. Source Valéry Giscard d'Estaing: "Zu Zweit für Europe", [Together for Europe], in: *Die Zeit*, 21 April 2009; at: <http://www.zeit.de/2008/51/Giscard>. Photo by courtesy of Die Zeit

interesting justifications for this academic honour which he has received more than a dozen times over the last few decades.

During his time as Chancellor, such excursions into the "spiritual and moral" sphere, as, for example, his speech at a conference on Kant in 1981, were interpreted as an attempt to divert attention from his 'Doer' image. This hardly bothered him, especially since he was able to show as *homo ludens*, which he also was, that he could demonstrate through such appearances that he knew how to ride this bronco without being thrown off.

However, he disapproved of the fact that the official guardians of morality in civil society, especially the churches, demanded from policymakers on sensitive matters of legislation on marriage and family, not to mention abortion, the preservation of values which they themselves were unable to convince the bulk of their believers to hold or to continue to hold.

He did not refuse to offer guidance, but he did not believe that the democratic state, whose purpose was to protect the fundamental rights and freedoms of its citizens and to ensure compliance with the rule of law, should act as a "moral shepherd". This expectation of veiled authoritarianism did not match his understanding of politics and its ethical requirements. It is the case that Schmidt's generally correct action in most crises, such as that of the autumn of 1977 where the rule of law was threatened to its core, must be more highly valued morally than any number of speeches.

Since Schmidt is still alive and actively participates in public life, only preliminary conclusions can be drawn:

- In his importance as Chancellor Schmidt is no lesser personality than those who, like Adenauer, Brandt and Kohl, are perceived by the public in general and by historians as ‘great’ Chancellors because they are each identified with a big ‘project’: Adenauer with his policy towards the West, Brandt with his Ostpolitik, Kohl with German unification.
- Under his leadership the Federal Republic became a global political player in economic and monetary policy, and also to some extent in security policy—although in that area not without a certain risk.
- In 1974/1975 Schmidt made a significant contribution to preventing the European Community falling apart. Together with Giscard d’Estaing, he had created in 1978/1979 the European Monetary System, and he launched the World Economic Summit of the Western industrial countries which stopped major industrial countries falling back on policies that were at the expense of others, as had happened in 1929 and subsequent years with their ‘beggar my neighbour’ approach.

Finally, it was under Schmidt’s leadership and responsibility that the terrorism of the Red Army Faction was decisively defeated. This contributed significantly to the political reorientation of some of their sympathizers on the radical political left, and especially to their renunciation of violence.

Theodor Eschenburg, a renowned professor of political science at the University of Tübingen, who was personally acquainted with many of the leaders of the Weimar Republic and the Federal Republic, wrote in his memoirs that Schmidt was the only chancellor since 1949 who had acted “against the spirit of the times”. There are many formative influences behind this assessment. From Schmidt’s experiences in war and dictatorship he has learned how easily people can be seduced politically, and he knows that this is particularly true of both the petty bourgeoisie as well as of the educated classes with their anxieties about promotion and relegation respectively, because he himself comes from that milieu. This is where his sober understanding of politics, his broad renunciation of demagogic rhetoric, comes from (despite his great talent in this area), as well as his scepticism about and even rejection of political and social movements that try to influence the *Zeitgeist* through the use of simplistic slogans.

Yet his political commitment is anything but emotionless. Rather, it is characterized by the pathos of reason, by the suffering of a world that is too far removed from the ideal of a sensible order in which people may live according to their dignity.

He does not leave ‘good government’ to governments alone. In 1997, in the name of the *International Action Council* (IAC), an association of twenty-five former leaders whose chairman he was for more than a decade, he published a draft “Universal Declaration of Human Responsibilities”.

The draft followed a long internal debate in the IAC which had begun in 1987 at a meeting with representatives of the large religious communities at the *Civiltà Cattolica* in Rome. The draft was strongly influenced by studies of a world ethic by the Catholic theologian Hans Küng, who had been teaching at the University of

Tübingen. It was addressed to the world public as well as to the United Nations. Schmidt stressed in the introduction to the draft of the German version that it was not a rebuttal of the UN Declaration of Human Rights, but a modification and expansion of it. But his discussion of the trends in Western politics towards making human rights an instrument for bringing influence to bear on countries with different political and religious cultures underlines that there is more to it than that. To counter the criticism by Buddhists, Hindus and Muslims who see human rights as a predominantly Western concept and to avoid Samuel P. Huntington's occasionally invoked *Clash of Civilizations*, he argued for a minimum of internationally recognized ethical standards in the coexistence of nations, cultures and religions.

The text of the draft is structured along the lines of the UN Declaration of Human Rights with a preamble and nineteen articles following, with the 'golden rule' recognized in all cultures as a starting point: "What you do not want others to do to you, do not do to others". The comprehensive ethical code of eighteen obligations contains detailed definitions of the meaning of truth and tolerance in politics and society. Neither politicians nor journalists nor scientists or scholars may lie, cheat or manipulate their fellow human beings. Hatred, violence and war in the name of religion, belief or political opinion are rejected. Religious and other authorities who preach hostility, violence, intolerance, or even war, deserve to lose their standing.

Of great significance are the equality of man and woman as well as the security and protection of children. Forced marriage, sexual exploitation and violence are sharply rejected. A reasonable use of property excludes exploitation, theft, fraud and unfair economic systems. The required reverence for life also includes animals and plants and the biosphere—soil, water, air and climate.

The last article notes that no provision in the declaration should be so interpreted in such a way that a state, an organization, a religious community, a social group or an individual can violate the rights and fundamental freedoms set out in the 1948 Declaration of Human Rights.

Despite this restrictive clause, concern was expressed in the public debate that authoritarian regimes might be encouraged to use this code of responsibilities to limit the rights of human beings.

This argument is belied by the text, which emphasizes the obligations of the powerful in government, society, business and religious communities. However, the suggestion that human rights and human responsibilities would be normatively not equal has more weight. The central reference point for human rights is the state's prescribed individual human dignity, but the addressees of the obligations—government, communities, family—possess the power to constrain or subordinate the individual and thus to restrict his or her rights.

Part of the debate in Germany could possibly have been avoided if the term 'responsibility' in the original English text had been translated not by '*Pflichten*' (duties) but by *Verantwortlichkeiten* (responsibilities) in terms of a sense of responsibility (*Verantwortungsbewusstsein*).



Helmut Schmidt, his Wife Loki Schmidt and his daughter Susanne during his 90th birthday on 23 December 2008. *Source* North German Radio (NDR). This photo is part of a photo series that may be accessed free of charge at: http://www.ndr.de/geschichte/koepfe/schmidtbildergalerie100_p-13.html. By courtesy of North German Radio (NDR). By courtesy of NDR

In numerous speeches and articles in recent decades—not least in his political testament *Out of Service* (2008), a kind of modern ‘mirror of princes’—he has stressed the responsibility of rulers not only for the main consequences of their actions, but also for their side effects. Even if these cannot be fully calculated in advance, the most comprehensive and in-depth analysis of information about possible side effects is an essential part of political accountability

After the experiences of not only of the last century but also of the present one, not only leaders but also citizens, as voters and as users of the environment, bear the responsibility for future generations. It is a part of their human dignity. Therefore, Schmidt’s attempt to create a minimum code of ethical conduct that takes into consideration the values and standards of other cultures and religions worldwide is worthy of all honour.

Chapter 2

Major Books by Helmut Schmidt and About Him as Chancellor of the Federal Republic of Germany

Compiled by Hartmut Soell

2.1 Books by Helmut Schmidt

Verteidigung oder Vergeltung: Ein deutscher Beitrag zum strategischen Problem der NATO (Stuttgart: Seewald, 1961).

Beiträge (Stuttgart: Seewald, 1967).

Strategie des Gleichgewichts: Deutsche Friedenspolitik und die Weltmächte (Stuttgart: Seewald, 1969).

Als Christ in der politischen Entscheidung (Gütersloh: Mohn, Gütersloher Verlagshaus, 1976).

Der Kurs heißt Frieden (Düsseldorf: Econ, 1979).

Pflicht zur Menschlichkeit: Beiträge zu Politik, Wirtschaft und Kultur (Düsseldorf: Econ, 1981).

Freiheit verantworten (Düsseldorf: Econ, 1983).

A Grand Strategy for the West: The Anachronism of National Strategies in an Interdependent World (New Haven: Yale University Press, 1985).

Eine Strategie für den Westen (Berlin: Siedler, 1986).

Vom deutschen Stolz. Bekenntnisse zur Erfahrung von Kunst (Berlin: Corso—Siedler, 1986).

Menschen und Mächte (Berlin: Siedler, 1987).

Die Deutschen und ihre Nachbarn (Menschen und Mächte II) (Berlin: Siedler, 1990).

Mit Augenmaß und Weitblick. Reden und Aufsätze (Berlin: Verlag der Nationen, 1990).

Einfügen in die Gemeinschaft der Völker (Munich: Luchterhand, 1990).

Handeln für Deutschland: Wege aus der Krise (Berlin: Rowohlt, 1993).

Das Jahr der Entscheidung (Berlin: Rowohlt, 1994).

(with Kurt Biedenkopf and Richard von Weizsäcker): *Zur Lage der Nation* (Reinbeck: Rowohlt, 1994).

Weggefährten: Erinnerungen und Reflexionen (Berlin: Siedler, 1996).

Auf der Suche nach einer öffentlichen Moral: Deutschland vor dem neuen Jahrhundert (Stuttgart: Deutsche Verlagsanstalt, 1998).

Globalisierung: Politische, ökonomische und kulturelle Herausforderungen (Stuttgart: Deutsche Verlagsanstalt, 1998).

Erkundungen (Stuttgart: Deutsche Verlagsanstalt, 1999).

Die Selbstbehauptung Europas: Perspektiven für das 21. Jahrhundert (Stuttgart: Deutsche Verlagsanstalt, 2000).

Die Mächte der Zukunft. Gewinner und Verlierer in der Welt von morgen (Berlin: Siedler, 2004).

Auf dem Weg zur deutschen Einheit (Berlin: Rowohlt, 2005).

Nachbar China (Düsseldorf: Econ, 2006).

Außer Dienst (Berlin: Siedler, 2008).

Drei Ansprachen (München: C. H. Beck, Privatdruck, 2010).

Sechs Reden (Munich: C. H. Beck, 2010).

Einmischungen—seine besten ZEIT-Artikel von 1983 bis heute (Hamburg: Hoffmann & Campe, 2010).

Religion in der Verantwortung Gefährdung des Friedens im Zeitalter der Globalisierung (Berlin: Propyläen, 2011).

Ein letzter Besuch. Begegnungen mit der Weltmacht China (Munich: Siedler, 2013).



Portrait of Federal Chancellor Helmut Schmidt (1986) by Bernhard Heisig who was then living and working in Leipzig in the German Democratic Republic, in Haus der Geschichte, Bonn. EB-Nr.: 1992/01/352. This photo is in the public domain.

2.2 Books Edited by Helmut Schmidt

Die Weltwirtschaft ist unser Schicksal. Wie eine weltweite Depression vermieden werden kann. Ein Weg aus der Krise (Frankfurt: Robinson, 1983).

Allgemeine Erklärungen der Menschenpflichten: Ein Vorschlag (Munich: Piper, 1997).

Erkundungen—Beiträge zum Verständnis unserer Welt. Protokolle der Freitagsgesellschaft. Edited by Helmut Schmidt (Stuttgart: Deutsche Verlags-Anstalt DVA, 1999).

(coeditor with Richard von Weizsäcker): *Innenansichten aus Europa. Die neue Mittwochsgesellschaft* (Munich: C. H. Beck, 2007).

(coeditor with Richard von Weizsäcker): *Die Deutschen und ihre Nachbarn*, 12 volumes (Munich: C. H. Beck, 2007).

Vertiefungen. Neue Beiträge zum Verständnis unserer Welt. Protokolle der Freitagsgesellschaft (Munich: Siedler, 2010).

2.3 Major Book Chapters by Helmut Schmidt

“Militärische Befehlsgewalt und parlamentarische Kontrolle”, in: Ehmke, Horst; Schmid, Carlo; Scharoun, Hans (Eds.): *Festschrift für Adolf Arndt zum 65. Geburtstag* (Frankfurt am Main: Europ. Verl.-Anstalt, 1969): 437–449.

“Reform des Parlaments”, in: Claus Großner (Ed.): *Das 198. Jahrzehnt. Marion Gräfin Dönhoff zu Ehren* (Hamburg: Wegener, 1969): 323–336.

“Die Opposition in der modernen Demokratie”, in: Schnabel, Rudolf (Ed.): *Die Opposition in der modernen Demokratie* (Stuttgart: Fink, 1972): 51–60.

“Politik als Beruf heute”, in: Hamm-Brücher, Hildegard; Schreiber, Norbert (Eds.): *Die aufgeklärte Republik. eine kritische Bilanz* (Munich: Bertelsmann, 1989): 77–84.

“Politischer Rückblick auf eine unpolitische Jugend”, in: Schmidt, Helmut; Schmidt, Hannelore; et al.: *Kindheit und Jugend unter Hitler* (Munich: Goldmann TB, 1994): 209–282.

2.4 Books with Texts by and on Helmut Schmidt

Meiser, Hans Christian (Ed.): *Ausgewählte Texte* (Munich: Goldmann, 1988).

(with Jobst Siedler): *Kindheit und Jugend unter Hitler* (Berlin: Siedler, 1991).

Hauser, Dorothea (Ed.): *Jahrhundertwende* (Berlin: Siedler, 1991).

Hauser, Dorothea (Ed.): *Jahrhundertwende. Gespräche mit Lee Kuan Yew, Jimmy Carter, Shimon Peres, Valéry Giscard d'Estaing, Ralf Dahrendorf, Michail*

Gorbatschow, Rainer Barzel, Henry Kissinger, Helmut Kohl, Henning Voscherau (Siedler: Berlin, 1998).

(with Fritz Stern): *Unser Jahrhundert* (Munich: C. H. Beck, 2010).

2.5 Books and Articles on Helmut Schmidt

(with Ulrich Wickert): *Eigentlich wollte ich Städtebauer werden: Helmut Schmidt im Gespräch mit Ulrich Wickert* (Stuttgart: Hohenheim-Verlag, 2001).

(with Sandra Maischberger): *Hand aufs Herz. Helmut Schmidt und Sandra Maischberger* (Düsseldorf: Econ, 2002).

(with Frank Sieren): *Nachbar China. Helmut Schmidt im Gespräch mit* (Düsseldorf: Econ, 2006).

(with Vanessa de l'Ors): "Ich habe keine Angst vor dem Tod. Interview mit Helmut Schmidt", in: *Cicero—Magazin für politische Kultur* (March 2007): 56–66.

(with Heinz-Norbert Jocks): "Das Reale und das vorgestellte China. Interview mit Helmut Schmidt", in: *Kunstforum International*, vol. 193 (September-Oktober 2008): 64–77.

(with Giovanni di Lorenzo): *Auf eine Zigarette mit Helmut Schmidt* (Köln: Kiepenheuer & Witsch, 2009).

(with Peer Steinbrück): *Zug um Zug. Helmut Schmidt und Peer Steinbrück* (Hamburg: Hoffmann und Campe, 2011).

(with Giovanni di Lorenzo): *Verstehen Sie das, Herr Schmidt?* (Köln: Kiepenheuer & Witsch, 2012).

2.6 Biographies on Helmut Schmidt

Albrecht, Henning: *Pragmatisches Handeln zu sittlichen Zwecken. Helmut Schmidt und die Philosophie* (Bremen: Edition Temmen, 2008).

Appel, Reinhard: *Helmut Schmidt. Staatsmann—Publizist—Legende* (Köln: Lingen Verlag, 2008).

Aust, Stefan; Fleck, Robert (Eds.): *Helmut Schmidt—Ein Leben in Bildern des Spiegel-Archivs*. (Munich: Deutsche Verlags-Anstalt—Hamburg: SPIEGEL-Buchverlag, 2005).

Bäld, Detlef: *Politik der Verantwortung. Das Beispiel Helmut Schmidt: Das Primat des Politischen über das Militärische 1965–1975* (Berlin: Aufbauverlag, 2008).

Bölling, Klaus: *Die letzten 30 Tage des Kanzlers Helmut Schmidt. Ein Tagebuch* (Reinbek: Rowohlt, 1982).

Dowe, Dieter; Schneider, Michael (Eds.); Darchinger, Josef Heinrich (photographer): *Helmut Schmidt—Fotografiert von Jupp Darchinger* (Bonn: J.H.W. Dietz Verlag, 2008).

Hofmann, Gunter: *Willy Brandt und Helmut Schmidt. Geschichte einer schwierigen Freundschaft*. (Munich: C. H. Beck, 2012).

Kunst im Kanzleramt—Helmut Schmidt und die Künste (Munich: Wilhelm Goldmann Verlag, 1982).

Meyer-Odewald, Jens: *Ein Leben. Helmut und Hannelore Schmidt*. Edited by Lars Haider (Hamburg: Hamburger Abendblatt, 2011).

Noack, Hans-Joachim: *Helmut Schmidt. Die Biographie* (Berlin: Rowohlt 2008).

Rohwedder, Uwe: *Helmut Schmidt und der SDS. Die Anfänge des Sozialistischen Deutschen Studentenbundes nach dem Zweiten Weltkrieg* (Bremen: Edition Temmen, 2007).

Rupps, Martin: *Helmut Schmidt. Mensch—Staatsmann—Moralist* (Freiburg i. Br.: Herder, 2008).

Rupps, Martin: *Helmut Schmidt—Der letzte Raucher* (Freiburg i. Br.: Herder, 2011).

Schneider, Sabine: *Die Kunst des Kompromisses, Helmut Schmidt und die Große Koalition 1966–1969* (Paderborn: Ferdinand Schöningh Verlag, 1999).

Schwelien, Michael: *Helmut Schmidt. Ein Leben für den Frieden* (Hamburg: Hoffmann und Campe, 2003).

Soell, Hartmut: *Helmut Schmidt. Vernunft und Leidenschaft. 1918–1969* (Munich: Deutsche Verlags-Anstalt, 2003).

Soell, Hartmut: *Helmut Schmidt. Macht und Verantwortung. 1969 bis heute* (Munich: Deutsche Verlags-Anstalt, 2008).

Sommer, Theo: *Unser Schmidt—Der Staatsmann und der Publizist*. Hoffmann und Campe, Hamburg 2010.

Steffahn, Harald: *Helmut Schmidt* (Reinbek: rororo,⁴ 1990).

Thiemeyer, Guido: “Helmut Schmidt und die Gründung des Europäischen Währungssystems 1973–1979”, in: Knipping, Franz; Schönwald, Matthias (Eds.): *Aufbruch zum Europa der zweiten Generation* (Trier: Wiss. Verl., 2004): 245–268.

Thies, Jochen: *Helmut Schmidts Rückzug von der Macht. Das Ende der Ära Schmidt aus nächster Nähe* (Stuttgart: Verlag Bonn Aktuell,² 1988).

Von Karczewski, Johannes: *Weltwirtschaft ist unser Schicksal. Helmut Schmidt und die Schaffung der Weltwirtschaftsgipfel* (Bonn: Dietz, 2008).

Wächter, Matthias: *Helmut Schmidt und Valéry Giscard d’Estaing. Auf der Suche nach Stabilität in der Krise der 70er Jahre* (Bremen: Edition Temmen, 2011).

2.7 Bibliography on Helmut Schmidt

Marbach, Johannes; Nober, Frank Josef (Eds.), 2009: *Helmut Schmidt Bibliographie 1946–2008* (Wiesbaden: Harrasowitz).

2.8 Films on and TV Appearances of Helmut Schmidt

1997: *Todesspiel* [Deadly Game]. TV documentation, drama, Germany (1997), 177 min, script and production by Heinrich Breloer, production: WDR, with an interview of Schmidt and his presentation in the film.

2005: *Die Nacht der großen Flut* [The night of the big flood]. TV documentation, drama, Germany (2005), 90 min, script and production by Raymond Ley, production: Cinecentrum, First broadcast on 28 October 2005, TV documentation, drama on the big flood of 1962 in Hamburg.

2005: *Helmut Schmidt—Mein Leben* [Helmut Schmidt—My life], documentation, Germany, 43 min, Producer: Felix Schmidt, production: macroscope, ZDF.

2006: *Helmut Schmidt im Gespräch mit Reinhold Beckmann* [Helmut Schmidt in conversation with Reinhold Beckmann], first broadcast on 25 September 2006 with video (ca. 70 min).

2007: *Helmut Schmidt außer Dienst* [Helmut Schmidt retired], TV feature, 90 min (2001–2006), a film by Sandra Maischberger and Jan Kerhart, production: NDR, first broadcast on 4 July 2007, awarded with the Golden Camera in 2008 in the category “best information”, as a YouTube Video in 9 parts, parts 1, 2, 3, 4, 5, 6, 7, 8, 9 also as a documentation of the weekly *Die Zeit*.

2008: Helmut Schmidt in conversation with Sandra Maischberger (“Menschen bei Maischberger”, 75 min), on 20 May 2008, video of ARD.

2008: *Book Launch “Außer Dienst”*—Helmut Schmidt in conversation with Claus Kleber, first broadcast on 21 September 2008 (Phoenix), video in the Phoenix Library.

2008: Helmut Schmidt in conversation with Reinhold Beckmann, first broadcast on 22 September 2008 (ca. 72 min).

2008: *Mogadischu*. TV drama on the kidnapping of the Lufthansa-Aircraft Landshut, Germany 2008, 108 minutes, production: Roland Suso Richter

2008: *Helmut Schmidt—Der deutsche Kanzler* [Helmut Schmidt—the German Chancellor], documentation, ZDF on 16 December 2008, 20:15–21:15 (58 min).

2008: *Schmidt (Bergedorf)—Eigenschaften*, biography, *Die Zeit*, of 11 December 2008, DVD, 9 Minutes.

2008: *Helmut Schmidt—Mein Jahrhundert* [Helmut Schmidt—My Century]. A film by Reinhold Beckmann and Christoph Weinert, ARD (60 min) on 23 December 2008.

2009: *Zur Lage der Nation* [On the State of the Nation]. Helmut Schmidt in conversation with Sigmund Gottlieb, BR (“Münchener Runde”, 45 min) on 3 February 2009.

2009: *Wir Schmidt* [We Schmidts], Helmut and Loki Schmidt in conversation with Giovanni di Lorenzo, first broadcast on 25 February 2009 (ARD),

2009: *Erfahrungen und Einsichten* [Experiences and Insights]. Helmut Schmidt in conversation with Markus Spillmann and Marco Färber, NZZ online (53 min) on 6 December 2009 (Video).

2010: Helmut Schmidt and Fritz Stern in conversation with Reinhold Beckmann, ARD (75 min) on 22 February 2010.

2010: *Was meinen Sie, Helmut Schmidt?* [What do you think, Helmut Schmidt] in conversation with Sigmund Gottlieb, BR (“Münchner Runde”, 45 min) on 2 March 2010.

2010: *Mehr Verantwortung!* [More Responsibility] Helmut Schmidt in conversation with Christhard Läßle, ZDF, Aspekte on 26 June 2010.

2010: *Helmut Schmidt in conversation with Sandra Maischberger*, ARD (“Maischberger”, 75 min) on 14 December 2010.

2011: *Helmut Schmidt and Peter Scholl-Latour in conversation with Reinhold Beckmann*, ARD (75 min) on 2 May 2011.

2011: *Helmut Schmidt and Peer Steinbrück* in conversation with Günther Jauch, ARD (60 min) on 23 October 2011.

2011: *Helmut Schmidt—Sein Jahrhundert, sein Leben* [Helmut Schmidt—His Century, his life]; Studio Hamburg, NDR TV, Die Zeit documentation; Compilation with five DVDs: 1. *Im Gespräch—Das politische Studio—Ein Porträt des Bundeskanzlers* [In conversation—The political studio—A portrait of the Federal Chancellor], 2. *Ein Mann und seine Stadt* [A man and his city], 3. *Ein Mann namens Schmidt* [A man with the name of Schmidt], 4. *Helmut Schmidt—Mein Jahrhundert* [Helmut Schmidt—My Century], 5. *Staatsmann und Hanseat* [Statesman and Hanseat],

2012: *Helmut Schmidt in conversation with Sandra Maischberger*, ARD (75 min) on 7 August 2012.

2012: *Warum noch an Europa glauben?—Bundespräsident Joachim Gauck und Alt-Kanzler Helmut Schmidt bei Maybrit Illner* [Why should we still believe in Europe, Federal President Joachim Gauck and former Chancellor Helmut Schmidt with Maybrit Illner], ZDF (60 min) on 27 September 2012.

2012: *Helmut Schmidt in conversation with Wolfgang Schäuble*, Phoenix (Economic forum of Zeit Publishers, 44 min) of 10 November 2012.

2012: *Helmut Schmidt in conversation with Siegmund Gottlieb*, BR (“Münchner Runde”, 45 min) on 20 November 2012.

2013: *Helmut Schmidt and Yu-chien Kuan in conversation with Reinhold Beckmann*, ARD (75 min) on 2 May 2013.

Part II
Helmut Schmidt's Major Texts
on International Economic
and Financial Cooperation



Helmut Schmidt during his visit to the White House on 13 July 1977. *Source* The photo was taken by Jack E. Kightlinger, White House photo. As a work of an employee of the U.S. federal government, the image is in the public domain

Chapter 3

Speech in Nairobi: World Currency Conference, 25 September 1973

The speech was linked to Schmidt's efforts to counter global inflation and to move ahead with the overdue reform of the world currency system after the linking of the international monetary system to the dollar had ended.¹ Here he was concerned to combine the different concepts of the balance of payments—the United States favoured automatic sanctions, the Europeans a flexible approach—in such a way that neither would new trade wars emerge among the industrialized countries nor would there be negative consequences for developing countries. Behind it all was the fear of a further rift between the United States and the countries of the European Community which might also lead to the erosion of the North Atlantic Alliance.

Mr. Chairman,

In the first instance, I want to join my friend Anthony Barber in stressing that this first meeting of the Fund and the Bank group in an African country demonstrates very well that the young nations of this continent have established themselves as respected partners. My government is determined to cooperate with the African and all the other developing nations in the interest of peace and economic welfare.

I greet President Kenyatta and the people of Kenya. Your country's economic and social development policies are truly impressive. And I welcome the most recent members of our institutions: Romania—whose accession is also part of our movement to new horizons—and the Bahamas.

One might say that in Nairobi there emerges these days the “second generation model” of worldwide monetary cooperation, but one might as well call it the third system already and thereby count the contemporary floating epoch as the second one. This second regime of floating must not become permanent. Therefore I am glad that the preliminary results of the work on reform have now been presented to the public for scrutiny, comment, and constructive criticism.

¹ See Hartmut Soell: *Helmut Schmidt—Macht und Verantwortung*, vol. 2 (München: Deutsche Verlagsanstalt, 2008): 258ff.

In their Annual Report, the Executive Directors of the Fund have appropriately reminded us that of all the tasks of economic management, “none is more urgent, or of greater significance for the longer run, than that of finding a solution to the problem of controlling and reducing inflation”. I fully agree with that judgment and also with Mr. Witteveen and the Kenyan Minister of Finance, Mr. Kibali, in stressing that inflation is an infectious dangerous disease of our societies that impairs the efficient allocation of resources and leads to a redistribution of wealth from the economically weaker to the economically stronger. This holds true not only within individual countries but also between nations. Poorer countries are often the first to suffer from price increases. The industrialized countries have, therefore, a particular responsibility to fight inflation.

My country has launched an energetic stabilization program against inflationary tendencies, employing fiscal tools, tax increases, surplus budget, credit restrictions and all the monetary tools. (I might insert here, that we have abstained from wage and price controls because we see no convincing success of these in the countries which have applied such controls. I personally do not believe that wage and price controls can make up for a failure in controlling the growth of the money and credit volume. We, therefore, have adhered to a combination of strict measures in the fiscal and monetary fields.) The German public has well understood our determination to break inflationary expectations. We now see a small silver lining of success on the horizon. But it is quite obvious to me that *no single country can effectively* isolate itself from the worldwide inflationary *disease*. Only steady and vigorous collective action can achieve a lasting success.

Economic growth as such will not lead our societies to social satisfaction. Dependability on the value of your money is an inevitable prerequisite upon which to build social justice. It is in this view of the general prevalence of inflationary dangers, that we must ask ourselves how the reform of the monetary system can promote both stability and economic growth. It is in this light that I evaluate the draft outline published today by the Group of Twenty. I think the outline is in a fair and balanced way reflecting the state of our reform discussions and it clearly defines the areas in which political compromises are still necessary as well as those areas in which more elaboration on the details is to be expected. In this anti-inflationary context I would like to offer five remarks:

We should maintain the emphasis on adjustment, and we should limit the possibilities to finance balance of payments disequilibria rather than expand them. We ought to reinforce the adjustment process by keeping *liquidity tight*.

- Adjustment obligations and pressures should be truly symmetrical as between surplus and deficit countries.
- The volume of international liquidity must be brought under effective control. I should like to underline the conclusion of the Fund's Annual Report (page 45) that the substantial degree of reserve ease in a large part of the world was an important element in the failure of governments in checking inflationary developments. Full asset settlement is an important condition for

a satisfactory management of international liquidity. But in order to establish effective control over international? liquidity we need an SDR sufficiently strong to become the center of the system.

- *Multi-currency intervention* has been somewhat neglected in our deliberations up to now. It needs rapid and careful study. Multi-currency intervention would lead to a very desirable greater symmetry in the monetary system.
- We should no longer permit large movements of capital to paralyze national monetary policies. The improvement of the adjustment process should remove some of the inducements to shift capital from one currency to another. But better coordination of credit policies and administrative controls will have a great role to play. For the rest, exchange rate elasticity will have to provide the needed protection. I support, therefore, the widening of the exchange rate margins as well as the authorization to float in particular situations.

On the monetary reform I wish to limit myself, Mr. Chairman, to these five brief points. I am well aware that they are only part of a wider range of issues, which must be resolved in the Committee of Twenty at a rapid pace. I am confident that under the able chairmanship of colleague Ali Wardhana satisfactory solutions can be worked out if we approach the still open questions in a spirit of mutual understanding and compromise. After having participated in all related international deliberations since last summer it is my judgment that *compromises are possible on all points and that they are possible in a network which in the end will be characterized by consistency in substance.*

We should, however, not lose sight of the fact that it is not enough to draw up an ingenious blueprint of reform. Equally *important for the improvement of the international monetary system is a sound and stable dollar.* The gap in the US balance of payments was the main source of superfluous international liquidity. We have jointly undertaken far reaching steps to close that gap. Germany for instance has revalued the Deutschmark vis-a-vis the dollar by nearly 50 % within less than 4 years. Other European countries and Japan also have helped. Only when this joint effort on the dollar is successful can the new monetary system take effect; but I have no doubt that we will be approaching the era of a stable rate of the US dollar reflecting its true value in the course of 1974.

Closing the gap in the US balance of payments is not only an indispensable prerequisite for monetary reform, it is also an indispensable condition for fighting inflation elsewhere in the world. In comparison with the other countries the US economic aggregates are of such enormous weight that the rest of the world cannot sustain any situation in which Washington neglects the effects of its economic policies on other countries. It is in this understanding that my government did undertake to help closing the gap. The spirit of mutual cooperation will be needed also in the future.

I have listened with great interest to President McNamara's statement on the future policies of the World Bank. Germany fully concurs with the World Bank to extend its aid within the terms of precisely these priorities. This means that my Government will increase its efforts to fight unemployment in the developing

countries, it will encourage better income distribution, promote the development of rural areas and will attempt to transfer labor-intensive technologies to a much greater extent than hitherto. An illustration how such attempts might work is demonstrated by our cooperation with our host, the Government of Kenya, with which we have elaborated here in Nairobi, I believe, an interesting industrial estate project on the basis of labor-intensive technologies.

I think that we should not only support the work of the World Bank by higher financial contributions, but also by a close cooperation in both technical and financial assistance.

The German share in the financial contribution to multilateral institutions (in particular to the World Bank and IDA) amounts to almost 30 % at present, which is unproportionally high by all standards. Since 1966 official German aid resources placed at the disposal of the World Bank Group have amounted to 1 billion Deutschmark; another 360 million Deutschmark have been pledged for IDA in 1973. The funds raised by the *World Bank* in the German capital marked during this period totalled nearly 4 billion Deutschmark.

President McNamara referred to the difficulties in connection with the negotiations on the fourth IDA Replenishment. I share his concern that—due to the restrictive attitude of some member countries—the aims of IDA—and thus the financing of the needs of its least developed members might be endangered. *My Government has therefore decided to increase its share in this IDA Replenishment from hitherto 9.76 to 11.4%, which again represents an unproportionally high increase.*

We all know that the expectations raised by the report of the Pearson Commission on the improvement of the economic and social situation in the developing countries were too optimistic. They were not fulfilled in many respects. On the contrary, there is the apprehension that the gap between the rich and the poor countries will even widen further until the end of this decade. *Consequently my Government will increase its official development assistance until 1978 substantially. It will therefore increase its official development assistance to a share of 0.41 % of its GNP.* I am confident that this positive trend can also be maintained in the years thereafter.

I would like to underline here that our actions in the field of multilateral aid (in particular replenishing IDA) and in official bilateral development aid do prove our determined will to transfer real resources at a growing pace. I might also add that much like the United States *I have a clear preference to do so by means of taxes and savings rather than by creating liquidity.* We ought to transfer real resources—which means real sacrifice—to the developing countries and not deceive ourselves by transferring only inflationary increases of liquidity.

My Government subscribes to the principle of open partnership. It is aware of the fact that by an increase of assistance from outside alone the future problems of the developing countries cannot be solved. I take it therefore that also in the future all concerned, both donor and recipient countries as well as the multilateral institutions will make a common effort to achieve the goals of the Second Development Decade.

Chapter 4

Washington Energy Conference, 11 February 1974 Statement by the German Federal Minister of Finance, Helmut Schmidt

This speech by Schmidt at the Washington Energy Conference on 11 February 1974, which he himself had suggested a few months earlier—albeit in a slightly different format—was delivered against the background of an international situation that had fundamentally changed not only economically but also politically. The price of oil as the main energy source of the world economy had not only quadrupled overnight but had become a political weapon in the hands of the oil-producing countries of the Arab world.

His warning against national attempts to save one's own skin—as was the case in France and Italy—could not be ignored, and neither could his advice to mitigate the severe consequences of the oil price increases for the poorest countries using assistance from existing institutions such as the World Bank and the International Development Agency. Again, for him it was all about common and constructive solutions to complex problems in which security, trade, currency and energy were closely linked.

1. I am going to comment upon a few of the points which have been raised so far, but first of all I wish to underline with strong emphasis what was said by the American j. delegation: The present situation is serious, but it is still manageable if we find a common answer. In this context I acknowledge with gratitude the offers of Dr. Kissinger in the fields of energy-sharing in cases of emergency and of research and development, to which I will respond in a few minutes.

Several of my colleagues have stressed that this conference should not be understood as a confrontation with the oil producing countries. We share this view. On the other hand we cannot overlook the fact that there has been created a sort of confrontation insofar as all the countries represented in this room plus the less developed consumer countries are confronted

- with a concerted action of a cartel of oil producing countries (of which at least so far neither Canada is a member, nor the North sea countries Britain and Norway);
- with a threatening shortage of oil;
- with dramatic increases in oil prices;

- with a dramatic impact on consumer prices (3 %);
- and with a dramatic drop of both employment and real income in our economies.

2. There are two alternative courses open to us: One is for everybody to try to save his own skin, and it looks as if some governments might be tempted to think that this is the only realistic way to handle the oil problem and its economic and political implications. But in the long run they might find themselves stuck with unbearable prices and deficits in their balances of payments and/or outflows of real resources. The other is a cooperative effort to find common answers to common problems. I appreciate, therefore, the invitation to this conference extended by the United States of America. Our reason for advocating cooperation is not that our country would not be able to attempt to "go it alone". We do in fact have only little oil or gas in our ground, or even in the German section of the North Sea, but Germany, speaking frankly, can at least pay its oil bill. We do not foresee any really serious balance of payment problems for Germany. Therefore, if everybody tried to go his own way, we would not have to fear competition. But we would not like this course.

My country, for instance, is prepared to play its part in solving the payments problems and in financing the growing deficits of oil-consumer countries resulting from the oil price explosion. But cooperation is never a oneway street. We do expect cooperation from all the countries involved.

I am certain that it is possible to satisfy the energy needs through a joint effort to bring about a steady and reasonable increase in energy production in the traditional oil producing countries, through the continuous development of new oil sources and through the intensified development of other sources of energy, in particular nuclear energy, natural gas, coal, lignite etc.

3. I have some understanding for the desire of oil producing countries not to exploit too rapidly their limited oil resources which often constitute their main source of revenue, and to adapt their oil production to the necessities and possibilities of their own economic and industrial development. We should also accept the desire of the oil producing countries, which can use only part of their oil proceeds for their own development, to invest these funds abroad in assets which are best suited to insure the stability of their value. I fully share the views of the American Secretary of the Treasury in this field.

But the oil producing countries, on their part, should recognize that it is in their own national interest to ensure the continuity of oil supplies at reasonable prices, not only because their fate is closely connected with that of the world economy, but also because, at least in the medium term, the price of oil will not stay above that of alternative energies and the development of such alternative energies might be even more stimulated in the meantime by excessive prices for crude oil.

On the other hand, consumer countries who nowadays contract oil supplies at high prices for a long time to come might find themselves bound to prices which would undermine the competitiveness of their economies in comparison with others who may be able to avail themselves of cheaper sources of energy in the future.

4. There is no way around cooperation among all partners of the world economy, including, of necessity, the oil producers. As the chairman pointed out, there are a number of different areas in which cooperation is needed. Let me begin with a few problems in the field of monetary and trade policies, which have a heavy bearing on the economic and political fabric of the world.

The first problem is the reduction of payments imbalances to manageable proportions. This is an area in which the oil-producing countries themselves can make and should be asked to make a contribution:

- by reviewing their price policy;
- by increasing their imports to assure better supplies to their peoples and to establish new industries;
- by considerably increasing their aid to developing countries at terms fitted to the limited ability of these countries to service debt;
- and last but not least, by lending their surplus money to deficit countries, especially in the immediate future, and later on by long term investment.

5. The second problem is the danger of beggar-my-neighbor policies among the oil-consuming countries both in the scramble for oil and in the attempt to maintain balance of payments equilibrium. We must by all means avoid a relapse into bilateral bartering, individual overbidding, competitive devaluations, or escalating trade restrictions and subsidies. These are real dangers for the near future. The Committee of Twenty has affirmed the principle to avoid these in its Rome communique. I feel it would be desirable if our countries again undertook at today's conference not to pursue policies which would only exacerbate the problems of others. At any rate: The German government will abstain from any such action as I just have mentioned.

The present flexibility of exchange rates may facilitate adjustment. But flexibility is no panacea, for if exchange rates were allowed to float excessively, unacceptable rate movements could be the result, at least in some individual cases. It is, therefore, important that exchange rate policies should be concerted. The International Monetary Fund (IMF) ought to watch over the exchange rate policies of its members to avoid the use of floating rates to obtain unjustified competitive advantages. The OECD should coordinate balance of payments targets, for we are not able to tell reliably whether a certain exchange rate policy will be appropriate unless balance of payment targets are compatible or have been made compatible.

6. Of course, even with improved price policies and adjustment measures, there is bound to be an inevitable deterioration in the balances of payments of the oil-consuming countries. We shall have to find means to finance them.

This, to my mind, is the third complex of problems. Ways will have to be found to ensure that the surplus funds of the oil-producing countries will flow to those consuming countries which need them to finance their oil-price induced deficits. We should also try to reduce the mobility of the oil-producers' funds, if this is possible.

A whole package of measures will certainly be needed to solve the financing problem. Of course, a certain part of the oil-producers funds will find its way to consumer countries automatically in the form of direct investments, investments in securities, or of credits and bank deposits, either directly or via old or new euro-markets. Countries which do not obtain an adequate share of these funds could remedy the situation by giving incentives or by issuing foreign loans. The loans recently issued or announced by France may be a good example.

But there are two points which we should remember when trying to attract the funds of the oil-producing countries.

- We must avoid ruinous competition and an escalation of credit terms, not least in the interest of the weakest among the borrowing countries. A regular confidential exchange of information and an informal coordination of issue schedules may help to avoid this danger.
- Secondly, we shall have to accept the oil-producing countries as our partners in this area as well, and to enter into a dialogue with them on how to safeguard the stability of the value of their assets and at the same time to avoid further disturbing disruptions of the international monetary system.

The World Bank and other development finance institutions, e.g., IDA, especially, should join in the efforts to direct the investment-seeking funds of oil-producing countries to those countries where they are needed. The World Bank, the IDA and the regional development banks ought to increase their borrowings in these countries. I welcome the efforts of President McNamara to borrow in some Middle East countries. An Arab bank, too, might become active in this field.

7. The International Monetary Fund will also have a significant role to play. Mr. Witteveen has made a noteworthy suggestion. But I believe it would be particularly helpful if the Fund relied primarily on the oil-producing surplus countries in the financing of the new facility.

I should, however, have serious misgivings—and I feel very strongly about this—if an attempt were made to solve the financing problem by unconditionally creating additional international liquidity. The struggle for monetary stability must not be allowed to drown in the oil wave.

8. But I could well imagine a portion of future oil imports being paid with the aid of gold. I will not go into detail here because my friend Valéry Giscard is not present. But I think that the countries around this table will be able to compromise with Giscard's ideas as long as we remain firmly united in our will not to restore gold to the role of center-piece of the monetary system.

9. Let me just stress the problem of the additional difficulties facing developing countries. This is a matter which should be of great concern to the developed countries as well. We cannot solve this problem at this conference. But we have to bear in mind that developing countries will have greater difficulties to overcome than the industrialized ones. The oil-producing countries must themselves accept the responsibility for this result of their policies. On the other hand, developed countries should not react by curtailing their own development assistance.

The steering committee which we will create at the end of tomorrow's meeting will have to see to it that the less developed countries are invited to prepare their data, their questions and their proposals for the second stage which has been proposed by Secretary Kissinger.

10. I have to insert here one word on the role of the multinational oil companies: I fully recognize that they have played an important and benevolent role both in the past and in the recent crisis in assuring an adequate and fairly equitable supply of oil in all countries which they serve. It is their global role however, which also makes their policies a subject of international political concern, and I would hope the oil companies will recognize this fact.

We need increased cooperation among our countries to obtain greater transparency in the operation of multinational companies and to achieve international control over private attempts to restrict competition. It is mainly the USA, but also the United Kingdom and the Netherlands which I ask to undertake with us a joint analysis of the price policies, profits and taxes of oil-multinationals. Their position may be changing tomorrow, but they still will have to play an important instrumental role and we therefore should devote analysis to them.

11. In concluding, I wish to join my old friend Max van der Stoep from the Netherlands who has seen considerable merit in Henry Kissinger's proposal to create a sort of high level steering committee to pave the way for the unavoidable and vitally necessary get-together between oil-producing and oil-consuming nations. Only in cooperation with the oil-producing countries can the critical dangers be averted which threaten the whole world. The price and the disposable quantities of oil need to be made foreseeable and calculable.

In the meantime I wish it to be known that my Government is perfectly willing to cooperate with other governments in dealing with the seven proposals of Secretary Kissinger. We feel that we will be able to contribute considerably, especially in the fields of technology, research and development, and we will also be able to do our share in financing the necessary investment. As regards the proposals of Secretary Shultz we are in agreement as well. I might just add that in this respect the Monetary Committee of the EEC, on February 11, and also the Commission under the chairmanship of Mr. Ortoli, have come to very similar proposals—and I think George Shultz's thought about the possibility for a new "international investment vehicle" is indeed worth studying. I would, of course, also wish to include the field of the multinational oil-industry.

I wish to conclude this part of my remarks by saying that we are quite prepared to start the talks in the coordinating group or steering committee as soon as next week.

11. Let me end on a personal note. I have had contact with acting politicians not only of the countries of Europe, but of the United States, Canada and Japan as well. During a number of years and in different capacities, I have always experienced and myself emphasized the need to find cooperative answers to the problems of security, trade, money and energy. It has become abundantly clear to me that these four complex problems are interrelated and that the well-being of all of us and the maintenance of balance in the world depends on our finding

constructive and realistic answers to them. It is in this context that I wish, at the end, to stress the acknowledgement made by Sir Alec of the role of the United States in bringing about armistice and—so I hope for the future—also political settlement in the Middle East.

Chapter 5

The Energy Crisis: A Challenge for the Western World, Lecture at Roosevelt University, Chicago, 13 March 1974

In this speech presented on 13 March 1974 at the invitation of Roosevelt University in Chicago, he talked about the consequences of the oil price crisis for the energy supply of industrial and developing countries. Judging from his experience so far, the general public neither in Europe nor in the US had sufficiently understood that the crisis represented a turning point where different behaviour and a policy of energy saving, as well as the exploration of new energy sources, would be necessary.

Ladies and Gentlemen

Let me begin by thanking the Roosevelt University for the opportunity of speaking to you here today. I have gladly accepted this invitation, because I believe that the dialogue between our two countries—or, on a larger scale, the dialogue between Europe and the USA—should not be restricted to those involved in official international relations, but should be conducted at all levels of public and academic life.

The very problems which have brought us together here today, the vital question of energy supply, make it absolutely necessary for each side to find out where the partner and ally stands. In international politics, this is done frequently—the latest opportunity was provided by the mid-February energy conference held in Washington. But I am not quite sure whether larger sections of the population, either here in the USA or in the Old World—have fully realized the fundamental importance of what we have come to call the ‘oil crisis.’ Thus, it is all the more important that we should discuss the reasons and the background of this crisis and that we should approach this question—both here in the USA and in Europe—without blinkers, in an attempt to arrive at a common assessment of the situation.

I must confess that the name of this University has still enhanced my desire for a dialogue. Although in actual politics it is mostly of little help to draw inspiration from historical figures, I have asked myself how the man after whom this University was named, and how the second President of the United States who bore this name, how these two famous men who played such an important part in American history would have reacted to the challenge of the oil crisis.

Maybe that the elder of the two, Theodore or 'Teddy', in an act of what later came to be called his "cowboy diplomacy", would have proclaimed that we are in a situation "exactly as if a road agent had tried to hold up a man." And maybe that he would have added his world-famous motto: "Speak softly and carry a big stick, you will go far." But who knows: Teddy Roosevelt, who throughout his life was a strong believer in military might as the right arm of diplomacy, might just as well have discovered that other disposition of his, namely that of the honest broker.

Franklin Delano Roosevelt might have remembered what he said in his 1933 inaugural address: "In the field of world policy I would dedicate this nation to the policy of the good neighbor..." And he probably would not have forgotten what he emphasized after the Yalta Conference on the 1st of March 1945: "We shall have to take the responsibility for world collaboration, or we shall have to bear the responsibility for another world conflict." Collaboration or conflict, that was F. D.R.'s alternative.

Another great man of American history, Woodrow Wilson, might have added what he said in 1917, shortly before the USA entered the war.—"If there is an alternative to conflict, for God's sake, let's take it!"

Now, the energy crisis which has emerged worldwide after the abrupt and massive increase in crude oil prices is not, of course, the crisis of the Roosevelts, but it is our crisis—both in Europe and here in the USA!

It is a problem facing our present-day generation which, in one of the big illusions of our time, had become accustomed to regarding energy as something which was in overabundant supply and cheap into the bargain, a low-price commodity which powered half-empty cars spinning along on super-highways or half-empty planes linking the continents or which helped a rapidly growing economy to set up ever new production records for consumer goods. It is a problem facing Europe where 18 times more energy is consumed than, for instance, in India, and a problem facing the USA whose energy consumption is three times that of Europe.

All of a sudden the industrialized world in particular has come to realize that an abundant and low-price energy supply can no longer be taken for granted and that we shall have to make substantial efforts to be able to satisfy the growing energy requirements, efforts with a view to safeguarding existing sources of supply, opening up new sources and developing new forms of energy.

Likewise, we have suddenly come to realize that we would be well advised to rediscover the virtue of economizing on the exhaustible resources, unless we want to be forced to alter our way of life. In Germany, there are witty historians who claim that Luther and the Reformation were due not to the Catholic Church's failure to encourage progress, but to the fact that early in the 16th century the herrings had changed the direction of their migrations and had failed to turn up at the German North Sea shores. As a result, catches dwindled and it became impossible to observe Lent so that the religious system had to be altered.

I would be somewhat reluctant to bet that history will repeat itself. Today, it is not the stray herring that could compel us to change our way of life and the pattern of our thinking. But it could be the energy supply. And thus, the problem today is to prevent the flow of energy from oil-producing countries from drying up.

At the same time, we have to ensure that the huge masses of foreign exchange accumulating in the oil-producing countries as a result of the oil price explosion will be directed to the appropriate shores. All this is our problem, and we shall have to think hard in order to find a solution which will benefit the nations of this world. Maybe we need something along the lines of a New Deal, to use a term coined by Franklin D. Roosevelt. And F.D.R. would probably have advised us to make worldwide cooperation the object of this New Deal.

It would be a mistake to approach the oil problem with illusions, with a swashbuckling rattle of the sword in the manner of a past century's gunboat diplomacy or in an egoistical overbearing manner. Each side, the oil-producing and the oil-consuming countries, must learn to understand and appreciate the other's interests, means and possibilities, since there is no other way of avoiding abortive actions and corresponding reactions.

Oil consumers would be well advised to examine the oil-producers' motives impartially. It is true that, in the Middle East, current political issues have a bearing and that, to this extent oil is considered a political weapon.

What to my mind appears to be more important is the oil producers' aim to see that their oil fetches a 'reasonable' or 'just' price and that their oil production, rather than being primarily geared to satisfying the oil-consuming countries' needs, be shaped to meet the requirements of their own development. The industrialized countries must learn to understand that the oil price explosion is a further manifestation of a process of worldwide decolonialization and emancipation. What oil-producing countries like Indonesia, Iran, Nigeria or Venezuela have in mind is their own industrialization, the broadening of their economic bases by means of diversification, and finding markets for their own raw materials and future industrial products.

Thus, in essence, the oil price issue is not just one of a clash over the Suez Canal, the West Bank nor Jerusalem. What the oil producers, and not only the Arab ones, have in mind is to increase their share in that portion of the world product which is created with the aid of oil, one of the most important raw materials for years to come.

The oil consumers would do well to grasp that this is exactly what is intended and not to allow certain facts to be repressed into the subconscious mind, especially the present distribution of wealth between industrialized countries on the one hand and oil-producing countries on the other. If, for instance, U.S. per capita income in 1971, were taken to be 100, the following countries' figures for 1971 would be as follows: Kuwait 75, Libya 28, Venezuela 21, Saudi Arabia 11, Iran 9, Iraq 7, Nigeria 3, Indonesian.

And these figures are by no means a true reflection of the actual level of wealth attained in those countries; the disparity, in real terms, for the bulk of the population can well be assumed to be greater than these figures reveal. And it is this gap in incomes or wealth that alone should be taken to motivate the oil countries' policies.

Seen from this angle, the Western industrialized Countries, including Japan, can hardly avoid acknowledging the merits of the oil countries' claim seeing that

cheap oil was in the past a major factor in the former countries' growth. They should not blind themselves to the fact that the times of cheap oil are past and gone.

A posted price of \$1.80 per barrel of Arabian oil ex Persian Gulf, as it prevailed in January 1970, will not recur. It will not do so because oil producers, following 10 years of systematic policies and aided by 20 years of careless energy policies on the part of the consumer countries, now have the power to achieve the distribution pattern they desire.

They have the power of those who control resources in short supply, resources which are of importance, in limitative respects, to a multitude of production lines in industrialized countries. There is insofar absolutely no substitute for oil and its derivatives available at short notice; at the most, a sort of fringe substitution might be possible in alternative fuel power stations. Certain economies in quantities consumed are, however, possible at short notice and that alone would involve considerable changes in consumer habits. In other words: as a short-term proposition, the elasticity of demand for oil and its derivatives is only slight, and thus the conditions are right for an autonomous price policy of the suppliers.

On the other hand, oil producers would do well not to regard the new independence and power they have in pricing to be a device which is devoid of all limitations and consequences. They should proceed with care when marking out their field of action.

In doing so they should above all not allow this newly grown consciousness to mislead them when assessing the industrialized countries' economic possibilities. For although there is only a very slight possibility for oil being substituted at short notice, there is a limit to the price that can be charged.

In the short run there is at least a point beyond which economic stability would be in jeopardy. And that point is reached whenever the industrialized countries are confronted with intolerable adaptation and reorganization problems incapable of being solved at short notice and are thus driven into employment crises or towards an explosive higher rate of inflation. In this context, I do not wish to contemplate a—at least theoretically conceivable—point beyond which the irrational use of force might ensue.

But if we think in medium run terms of 5–10 years, the elasticity of demand for oil will rapidly increase. Oil used for heat producing purposes will become substitutable as soon as the price of oil equals or exceeds that of alternative sources of energy. However, scope for substitution is smaller in certain sectors of transportation and of the petrochemical industry. But the longer the high price for imported crude oil is maintained the greater the incentive to exploit oil-shale, tar-sands, coal and lignite at competitive costs and thereby diminish the demand for Arabian oil.

In the long run oil could be replaced by electricity even in the field of transportation, for instance if nuclear energy were available to a greater extent. But long before that coal will have been assigned a much larger role as a basic material in the chemical industries.

For these reasons oil-producing countries would not only be gravely misjudging the power they yield but also be jeopardizing their own interests if they were to try

to attain maximum absorption on a short-term basis. It would run counter to their own long-term interests if oil-producing countries were to pursue a price policy that would drive Western industrialized countries onto the verge of, or even right into, crises: You do not kill the goose that lays the golden egg. Extreme, super monopolistic absorptions simply are no sensible strategy if the object is to narrow the income gap between the group of industrialized countries and the group of oil-producing countries.

But the most important aspect is that such a policy would force the industrialized countries to resort to sweeping crash programs designed to direct their entire resources, their entire advanced technology to the substitution of oil or to the exploitation of unused oil reserves.

Consequently, in the long run the effect for the oil-producing countries might well be reversed. As far as their interests are concerned, the optimum solution would therefore not lie in a short-term maximum absorption but rather in an absorption that is achievable and tolerable on a long-term basis.

With this in mind, a major question mark remains over the present oil price policy. Price increases have been so exorbitant that, as a result of changes in incomes and demand, serious repercussions, particularly on employment in oil-consuming countries, cannot be ruled out. In addition, the oil-producing countries have obviously been unaware of the strain which they impose on a fragile monetary system through their sudden sucking in of purchasing power.

Therefore, even if one recognizes—as I do—that producer countries have a good case for claiming a greater share, there will have to be negotiations on the size and terms, because a new equilibrium cannot be the result of monopolistic practices and mechanisms, but will have to be brought about by balanced judgment and advance planning.

Producer and consumer countries will have to sit down at the same conference table. In those talks, the oil-consuming industrialized and developing countries should not be forced at short notice to lower their standard of prosperity at the expense of their social stability. It should on the contrary be in the interest of the oil-producing countries as well to ensure that they can satisfy their requirements by being able to draw upon industrialized countries' national products that are in a process of growth and possibly even undergoing structural changes for the better.

At the same time, the problem of the use of the enormous monetary purchasing power now accruing to the oil-producing countries must be discussed since this will have repercussions on the employment situation in the industrialized countries and on the extent of unavoidable structural changes.

The search for solutions will certainly not be facilitated by the fact that there is no homogeneity of interests in either group. Some of the oil-producing countries such as Iran and Venezuela will—at least on a medium-term basis—be in a position to utilize the accruing purchasing power for, say, internal investment projects destined to expand their own production capacity. To this extent, they will become importers of industrial goods and consequently trigger off a corresponding demand for export goods in the industrialized countries.

Here lie welcome chances for an economic and technological cooperation aiming at an accelerated industrialization of oil-producing countries; this approach will require the development of coordinated programs.

I believe that it will be necessary to arrange for very early talks with the oil-producing countries regarding the framing of such programs, if friction and loss of time is to be avoided. On the other hand, an urgent note of warning should be sounded against developing a multitude of exclusively bilateral overbidding and undercutting. The worldwide oil market must not be allowed to disintegrate into separate bilateral segments. The industrialized countries should, on the contrary, attempt to develop multilateral industrialization programs as well.

Other countries such as the sheikdoms on the Persian Gulf, Saudi Arabia and possibly Libya will—even on a medium-term basis—not be able to absorb the additional purchasing power within their own frontiers. They will, in other words, not increase their imports and consequently not bring about an increase in demand for export goods; they will invest their monetary capital in other countries rather than spend it. This will result at first in the accumulation of huge readily disposable amounts running into tens of billions annually which could well flow back to the industrialized countries as capital imports. Such amounts might also be made available to countries of the Third World who in turn could use them for buying export goods from industrialized countries.

The situation on the part of the oil-consuming countries is equally differentiated. Some of the industrialized countries are more seriously affected than others, the degree varying primarily according to the extent to which they are dependent upon oil imports and according to the previous position of their current account and their balance of payments in general, and finally, according to their export capacity.

Countries with a current account surplus, i.e. countries which have so far not absorbed their entire national product internally for consumption and investment but have made part of it available to other countries, thereby acquiring monetary claims, are hardly expected to run into severe difficulties.

This applies, for instance, to the Federal Republic of Germany whose current account surplus is quite substantial. For my country, even the increase in oil prices will presumably not result in a current account deficit. Our export industries do enjoy a high reputation in potential purchasing countries. In addition, the Deutsche Mark is backed by a very large monetary reserve so that any lean period could easily be overcome. But the effects of the increases in oil prices on income will of course also be felt by countries with a strong monetary position.

Other countries whose balance of payments has hitherto been in equilibrium or has already shown a deficit, particularly a number of less developed countries, may well run up so huge deficits on current account that they might very shortly be facing enormous financial gaps resulting in an immediate and urgent necessity either to step up exports or to reduce imports. Such a situation is extremely dangerous for the whole future of the world economy.

But it would be a great mistake if each individual country within the group of oil-consumers were now selfishly to try to solve its payments and employment

problems by pursuing beggar-my-neighbour-policies at the expense of its trading partners. Any relapse into largely bilateral bartering would be just as dangerous as any reintroduction of trade restrictions. Nor should there be any competitive devaluation.

After the Washington Energy Conference a few weeks ago we will have to undertake every effort to see to it that, however justified the concern about specific national problems may be, the common interest will not be forgotten. Otherwise, an arrival at a point of no return cannot be ruled out.

Any current account deficits that would remain if a compensatory increase in exports cannot be achieved at short notice might well be financed from the surpluses of oil-producing countries. The point would be to release capital flows of more or less the same size as the various current account deficits of oil consuming countries. A large-scale concentration of investments in a few individual countries would create wellnigh insurmountable difficulties both for the latter countries and for those who fail to balance their current accounts for lack of capital imports.

Of course, a certain portion of the investment seeking oil funds will find its way to consumer countries automatically: in the form of direct investments, investments in securities, credits and bank deposits.

Countries which would not automatically obtain an adequate share of these monies might remedy the situation by offering investment incentives or possibly by issuing foreign currency bonds, though there should be no free-for-all in the field of foreign bonds.

As I see it, one of the main challenges of the oil crisis is the question of what will happen to the developing countries of the Third World.

Even without this crisis it has not been at all easy to create an industrial basis in developing countries. These countries certainly have a great need for goods or, in other words, a great power for absorbing industrial supplies and services. But most of such countries are not capable of earning more than a fraction of their investments by themselves.

The gap between their internal absorptive power and their capacity to earn foreign exchange has hitherto been closed more or less by private capital imports and development aid. We all know that success in this field has been no more than limited. Nevertheless, many billions have flowed from industrialized countries to developing countries.

In some such countries, those funds have indeed acted as an industrial booster charge. Many other countries, such as India which for long years has been receiving substantial aid from both the USA and the Federal Republic, have not been making such good progress. These in fact are the countries, the most wretchedly poor, where the impact of the worldwide increase in petroleum prices may virtually become a matter of life and death. I am being quite frank and outspoken on this point because I can see problems looming up which may shortly be causing serious concern at international level.

If the World Bank's estimates were to prove correct, namely that the current account of those developing countries' balances of payments which are dependent on oil imports will deteriorate even more, we must indeed ask ourselves whether

they will in fact be able to pay for the oil they need. It is not only the industrialized world that is now being drained of huge volumes of purchasing power by the oil-exporting countries. As long as there are no two-tier prices, the ton of oil supplied to India will contribute to the drain of purchasing power in the same way as that supplied to the USA. But what the Indians will be having to pay for the ton of oil shipped there will impose a relatively much heavier burden on them than, say, on this country here.

On the one hand, the oil countries should this year be able to run up current account surpluses of around 50 billion dollars. On the other hand, the oil-dependent developing countries will have to provide nearly ten billion dollars, or about one-fifth of that shift in purchasing power. Those ten billion dollars of additional expenditure on oil are more than the entire capital aid received by those countries from other states—capital aid which in 1973 came to some 8.5 billion dollars.

The worst hit will probably be the highly-populated but low-export developing countries, such as India and Pakistan. As a result of their own efforts towards industrialization, these countries have a comparatively large need for imported oil. Contrary to high-export countries, like Brazil, Mexico or Israel, they also have no short-term possibility of offsetting the rising cost of imports by increased export proceeds. Last year, for instance, India imported approximately 16 billion tons of petroleum and had to spend 2 % of her export proceeds on paying for it. This year, oil imports are expected to erode 65 % of her total receipts from exports.

I feel that India provides a really exemplary case of what the world may possibly be up against as a result of the oil crisis. Even if the industrialized countries were to refrain—as I most definitely think they should—from reducing their development aid efforts, they will certainly not be able to pay for the extra costs of their own oil imports and in addition shoulder those of developing countries by stepping up their aid efforts.

Who, then, is to pay for India's foodstuff imports, which will probably be considerable seeing that the crop is expected to be a poor one? If pessimistic forecasters should prove right, India will shortly be facing the problem of a serious famine with all its prejudicial effects on further economic growth. And India might not be the only country where oil price increases may result in perilous social storms.

In view of this situation, the oil countries, too, must accept a new responsibility. As matters stand, the Third World will need not only continued development aid from the industrialized countries—no matter how difficult the provision of it may be for the latter—they will also need a major portion of the purchasing power which is now flowing from industrialized countries to oil-producing countries, who will only in part be capable of putting their earnings to a useful purpose within their own borders.

In concrete terms this means that the oil countries must recognize that their sudden and unplanned pricing measures have left the world facing extremely serious adaptation problems. They will, therefore, have to draw up their own bilateral development assistance programs, establish development institutions and conclude agreements with the existing international financial agencies such as the

World Bank and the International Monetary Fund on the joint provision of finance for aid programs and development projects. It is only if capital flows to them from the oil countries that the developing countries proper will be prevented from relapsing into an even poorer state.

The industrialized countries themselves, in view of the rise in oil prices, are facing the task of improving their own energy supply enough to make sure that their economic room for manoeuvre will not be too confined.

To be sure: wonders cannot be expected from stepping up energy research and development programs. It took more than 10 years to land men on the moon. And it will certainly take more than 10 years, for instance, to achieve controlled nuclear fusion and to use it on an industrial scale.

But it seems to me that we could and should do more in the field of advanced power reactors, such as high temperature reactors and fast breeders. These two, for instance, form an important part of my country's atomic energy program. And so far as I can see similar program are pursued over here in the United States which aim at providing energy without polluting the environment and at reasonable cost.

Of course, we must continue to pay the closest attention to the possible dangers involved in using nuclear energy. We must not let the justified warnings of environmentalists go by the board for fear of running out of energy. But neither should we indulge in the often hysterical behavior which is sometimes shown in the case of reactor projects.

At home, our aim is that by 1990 more than half the demand for energy should be met by nuclear power, and that especially heat for industrial processes should be produced in this manner. In addition, we are pursuing programs of research into coal gasification and hydrogenation.

Altogether, we are ready to put our programs into a pool of international co-operation. And I am grateful that the United States is also prepared to do this. So far as I can see, it will be a decisive lever in the hands of the industrialized countries, which will enable them to make better use of their resources, if national research and development are concerted internationally.

The action which each of us can take at home to meet this challenge will inevitably have to include, I feel, measures to improve the work of the big oil corporations. I could affect the same attitude as Teddy Roosevelt who said in the hey day of trusts and monopolies that it was the same with these corporations and industrialism as with the egg and the hen; but certain abuses, it seems, will have to be weeded out.

In that case, I might easily be held up to mockery as Theodore Roosevelt was by the then most popular humorist, Finley Peter Dunne, who wrote that the trusts were terrible monsters. On the one hand, Teddy Roosevelt wanted to tread on their toes but, on the other hand, not too hard.

Today, I believe, no national government can avoid reviewing the part which the international oil corporations have played in the past, and considering the tasks which they may carry out in future. That this is necessary is evident from the fact that the governments in the producing countries are increasingly bringing their

weight to bear in the petroleum market. This alone would be enough to force the governments in the consuming countries to pay more attention to the conditions and the security of supply. In addition, industrialization of the petroleum producing countries, if it is to make sense, cannot be achieved except by joint government planning, and cannot be left to the oil companies.

Nor can any national government afford it politically any longer to view the pricing and selling policies followed by the oil corporations in its own domestic market through the glasses of a liberalism restricting the state's role to that of a night watchman's. I felt rather helpless vis-à-vis the fact that at one time during the oil crisis the Federal German Government depended for its information entirely on the goodwill of a few oil company directors.

There is no other way for the oil companies but to make their activities in the markets more transparent. And when I say transparent, I mean plain as a pikestaff throughout, including the balance sheet. There must at last be clear answers to the questions of the taxation of income and of checks on posted prices. It should be the aim both of the United States and of the Federal Republic—to mention only these two countries—to tax the current profits of these corporations in an appropriate manner and not to permit international distortions. And so far as profits are to be re-invested in the production of energy I would wish that those countries get a fair share of that investment, who provide the profits of multinational corporations.

On these terms, the multinational oil corporations will continue to have their well-understood part to play. They have the experience and they have the know-how that are necessary to develop the oil market and to develop new oil fields. I do not regard them either as Frankenstein monsters or as dangerous: agents of imperialism. But neither do I regard them, as Andrew Carnegie once said, as "triumphs of democracy."

Summarizing, we have to recognize that the challenges of the oil crisis have emerged at a moment where the political situation of the world at large is anything but stable. In my opinion, the oil crisis has brought an additional element of instability into a world already in the process of groping for a new and stable equilibrium.

There is no denying the fact that the basic pattern of the world, which existed for many years after the Second World War, has been in a state of flux for some time now. The condominium which largely controlled political life in the world for two decades has ceased to play its previous role. New power centers are emerging, and the trend towards a multipolar distribution of power is quite obvious.

It is self-evident that this phase of transition to new and non-discriminatory arrangements for a state of peace which would be based on five or six power centers instead of two as in the past is characterized by a high degree of latent instability. Statesmen will have but few fixed landmarks to rely upon so long as the new power centers have not been firmly established, as their spheres of influence have not been consolidated and their mutual relations have not been clarified. There may even be cases of diplomatic demoralization and international anarchy.

In this situation, it is all the more important to keep the number of potentially disruptive factors to a minimum and to canalize disturbing influences by mutual agreement as far as possible. At the same time, those who have hitherto worked together on the basis of an alliance and a common philosophy will have to make every effort to prevent the inevitable changes from jeopardizing the foundations of their mutual understanding or loosening the vital ties of partnership and friendship.

With reference to the partnership between Germany and the USA or Europe and the USA, this means that we shall have to continue developing such partnership and to find ways and means of cooperation in fields where so far there have been more or less isolated efforts only, that is to say in many sectors of the economy, of technology, as well as energy supply. Future tasks will have to be focussed on these points.

Furthermore, a number of prejudices and misunderstandings will have to be removed, particularly with regard to the negative image of the European Community still lingering in this country. We Europeans are certainly very much interested in friendly cooperation with the USA, and I feel that, conversely, the USA may be greatly interested in giving the European patchwork carpet a clear and easily recognizable design.

In other words: the aim must be a strong and convincing Europe. Henry Kissinger once said that without this Europe, the USA will no longer be master of its own decisions. I am pretty sure that the Europeans themselves will take this course, despite the desolate state of quarrel in which our European Community presents itself today.

And it is only by way of joint efforts that we shall be able to avoid that disruptive capacity which oil nowadays has and to deprive it of its explosive nature, of its prejudicial effects on the future development of the industrialized countries and on the existence of the Third World, by entering into a dialogue with the oil-producing countries. There will certainly be no roll-back of oil prices to their old levels, nor would isolated national activism be the right answer. This does not mean, of course, that there is no room for bilateral agreements where they fit into the global pattern of common interests.

But, on principle, the only way we can meet the interests of the oil-producing countries is by doing so jointly—for instance, in connection with providing safeguards against currency erosion, freezing of accounts or expropriation, in connection with selling aid or the industrialization of oil-producing countries—and doing so in a manner that will take account both of those countries' possibilities and of our own long-term structural policies.

He who believes he can dispense with internal stability when tackling this problem may consider himself flexible, but rather than improving the stability of the international situation he will be contributing to its instability and thereby his own instability. However, if the dialogue with the oil-producing countries is to result in stabilizing the flow and the price of oil supplies, we will need to have concepts acceptable to both sides.

We will not find them unless, after all, we look upon the oil crisis as a challenge to the moral strength of the nations and of their statesmen.

We could find a solution if we were to develop the principles laid down in mid-1941 by Winston Churchill and Franklin Delano Roosevelt in the fifth point of the Atlantic Charter: “International collaboration for improved labor standards, economic advancement, and social security.”

Chapter 6

Interview by James Reston (New York Times) with Helmut Schmidt

The following excerpts are from an interview with Helmut Schmidt by the well-known American journalist James Reston published on 25 August 1974 in the New York Times.¹ This interview underlines the efforts of Schmidt, elected Chancellor 3 months earlier, to ensure that the finance ministers of the US, France, Britain, Japan and the Federal Republic not only maintained the degree of monetary cooperation previously agreed, but extended it to their entire economic policy. Since due to its economic strength the United States played a key role, he was concerned after Nixon resigned due to the Watergate scandal and President Gerald Ford came into office that no similar abrupt changes should take place as had happened with Ford's predecessor in 1971—with the end of the convertibility of the dollar into gold—without consultation with the industrialized countries mentioned above. It was an anticipation of the beginning of the World Economic Summit in 1975.

Question: What can be done about the present economic financial crisis in the world?

Chancellor Schmidt: It is hard to achieve anything fundamental without the cooperation of the United States of America. As a matter of fact, the United States GNP [gross national product] is five or six times as big as the next biggest one, namely ours.

So anything you do or not do has the greatest impact, especially because you are much more independent from the movements of the world markets, whether it is the market for raw materials or it is the market for industrial products or of agricultural products or whether it is the market of money, for credit, you are much more independent than we are.

¹ See James Reston: "Bonn Chancellor Bids Ford Act With Care on Inflation—Warns in Interview That Extreme Moves by U.S. Could Upset World Economy Asks Day-to-Day Consultation", in: *New York Times*, 25 August 1974. This article which summarized Schmidt's comments in the interview.

It is correct to say that we export nearly as much as you do. But in our case import and export have an order of magnitude of about a quarter of our GNP, whereas in the United States it is about 4 to 5 %.

So your economy can afford disorder outside your borders to a much higher degree than we can. We are much more dependent on the well-being, on the right functioning of the world economy.

Question: But isn't the United States also dependent on a healthy world economy?

A. Yes, but you are much more autonomous. Our employment is much more dependent on the purchasing power of people outside Germany than is the United States on the purchasing power of people outside the U.S.

There is a danger if in this late phase of it the United States should embark really, not only verbally but actually, on a strong deflationary economic policy. It would inevitably of course mean that not only your prices go down, but also your unemployment figures will rise, and you will, in principle, face the same dilemma which is faced by the Italian Government, which is faced by the British, which is—on principle—faced by my Government. But you enter this dilemma from the beginning of your anti-inflationary policies on a high level.

Because you already do have 5.3 % unemployment, whereas we had 2.3, which already is giving concern in this country because we are not used to that. There is a danger that if the United States as a whole goes deflationary, taking into the bargain a high rate of unemployment, this will inevitably spread to the world markets.

It will mean less demand from the U.S. on the world market, and it will mean that we can sell less than we sold last year or last month. So the United States is in the difficult situation of trying to find the right road between enough anti-inflationary policies, but not to enter into deflation policy.

Question: You don't see any real future in world or regional economic conferences to deal with this immense problem?

Chancellor Schmidt: The greatest merit I would see, not in regional conferences, but in closest personal contact and almost daily contact between the acting people, between the *dramatis personae*, in the United States and Germany and Britain and France and Japan.

They may nevertheless make grave mistakes, but they must never permit themselves again what happened in August, 1971, when somebody acted on his own, even without previous warning, without leaving the rest of the world any chance to give its advice, to raise its objections or to make better recommendations [an apparent reference for former Secretary of the Treasury John B. Connally and the United States action serving the dollar from gold].

This was a grave mistake susceptible to destroying the trust, the confidence in the economic leadership of the United States. And this has to be avoided at any cost. It is a real danger that governments are starting to act on their own. Not the U.S. in this moment. But in Europe quite a few governments are starting to act on their own.

We haven't yet seen the negative consequences of the new monetary system. We haven't yet seen, and maybe we haven't yet understood, the possible negative consequences of the floating system. We have been living in a world of fixed exchange rates since generations. We are living in a world economy of floating rates only since 15 or 17 months.

Question: We don't know how to do it yet?

Chancellor Schmidt: We don't know what to do with this new phenomenon of the so-called Euro Market. The Euro Market now has a volume of roughly speaking 200 billion dollars.

At the end of this year the volume of the Euro Market may be as big as the whole GNP of Germany. That is an enormous volume of liquidity, and it increases every quarter by, roughly speaking 10 billions from the oil-surplus countries. We don't have an international banking system which is beyond doubt in its ability to handle that.

We don't have a control by the Federal Reserve Board in the U.S. over the dollar dealings of banks in London. We don't have a control of the German Federal Bank of the Deutsche mark dealings in London or in Luxembourg, outside Germany. You have these extraterritorial credit facilities of an enormous volume, which are fed at a very quick pace.

Question: Does the young generation rising in Europe care about Europe? Does Europe really mean something to them, the way it for awhile after Schuman and Monnet before de Gaulle?

Chancellor Schmidt: At present it means more, and at the same time it means less. It does by no means mean something great like the nation idea of the last century and after that. Maybe for the Germans, but not for the rest, and for the Germans only because we have lost a highly important symbol of national identity by being cut into two pieces.

Having said this, I think that the young generation in Europe nowadays does take European cooperation, whether it is economic or political, much more for granted and with much less problems than we seem to have done 20 years ago, and in the days of Jean Monnet, Adenauer, Schuman and others.

Question: They don't have the nationalistic bias?

Chancellor Schmidt: No, not as much, and the Second World War is now 29 years ago. Insofar things have changed for the better. It is being taken much more as self-understood, and there is the danger also that it is taken too much for granted.

I think this goes for the Dutch, for the Belgians, for the Germans, for the Italians. It does not go for the British. They have grave doubts about their being a part of Europe. And it does not go as much as for the rest of the countries, for example France. France has a high idea of its own national identity, which does not disturb us.

Question: Is there any danger or possibility that you could get into such a terrible muddle with the present trend of nationalism and inflation that you will be forced to go to some kind of federation of Europe?

Chancellor Schmidt: I don't think we will get into a muddle of nationalism, not in this country. The Federation of Europe is a very, very difficult thing to bring about. You don't only have six or seven languages. That is quite a problem, it means that in every office you need to have six officials, whereas in your own country you have only one.

And not only interpreters, but any task is being given at the same time to five or six or seven people. A fantastic bureaucracy, ineffective as bureaucracy could be! But it is much more than this language problem.

The tax systems, for instance, in Italy and in Germany, have been developed within three, four five generations. They are absolutely different from each other. The credit system. The economic structure of southern Italy still is much more equal to Anatolia than to Europe. All your institutions differ from each other many, many times more than the institutions of California and, let us say, Cambridge, Massachusetts.

So it takes a long, long time. And in the meantime you are always responsible to your national Parliament and to your national voters, who are very careful that you avoid any sacrifices today out of their pockets or at their expense. It might have been possible to make greater progress with such a superhuman leader, like de Gaulle appeared to most Europeans. But he isn't any longer here.

You might gain something by the personal friendship between [Valéry] Giscard [d'Estaing] and me for the time, as long as these people can act independently. But this just isn't enough. You don't have this great moving idea. And you don't have this menace at the horizon which we had in the fifties, where you had this pressure from the Soviet Union.

We are living in an era of détente. And it's really détente. It is a much less dangerous world than it was at the time of the Cuban missile crisis and the Berlin crisis. We have had enough of it. The menace has gone, at least it has shrunk.

Chapter 7

Report, Labor Party 1974

This is the talk that Schmidt gave on 30 November 1974 as a guest of the 73rd annual conference of the British Labour Party in Brighton. As a result of the oil price crisis, economic development had deteriorated. In some countries of the European Community, the tendency grew to go it alone or even to pull out. The latter was true of the UK, which had joined the community only 2 years earlier. The Labour government that had been in power since the spring of 1974 had demanded from the other EC members, in consideration of the anti-European sentiment among their own constituents, a significant reduction of the British contribution to the financing of the Community.

The Prime Minister, Harold Wilson, had invited Schmidt as a guest speaker to ensure his support in this difficult process. The anti-European Labour left had threatened an exodus from the conference hall should Schmidt appear as “preceptor Europae”. The talk shows how elegantly he managed this challenge.

Helmut Schmidt (Fraternal Delegate): It is a pleasure and a privilege to speak to you today as a fraternal delegate. Thank you for your cordial invitation.

As already hinted by some English newspapers, and as some papers of my own country, have beforehand insisted, I do have a certain reputation for being blunt. Some even call me names. But I think we have all got used to being misunderstood or indeed misrepresented. One has to accept that as a fact of life and live with it; and I think for you in the end, as ever, the proof of the pudding is in the eating.

When I spoke the first time to a Labour Party Conference in 1969 in Brighton my party was just about for the first time to form a Government under social democratic leadership. This time you have again formed a Labour Government after a very close election campaign and the first thing I want to say is therefore, on behalf of the Social Democratic Party of Germany, congratulations to you all on the political victory that put Labour back at the helm of this great country of yours. (Applause) The German Social Democrats wish you all the success which you are working for.

Second, my party, the SPD, wants our fraternal solidarity to be continued for the benefit of our two nations and our two parties. It is solidarity we need especially at a moment of time when many people think we are on the brink of another

grave world economic depression. It is in that spirit of solidarity, from which so often in the past both our parties have mutually benefited, that I have come here.

The reason for my addressing your Conference is, of course, not only to deliver flowers from Bonn to London. But let me put it in just one word off the record if I may. I have to apologise because some will be disappointed. I am not set for any clash. Instead I want to make clear our view of the present situation. It is not going to be an apocalyptic painting; we are not adopting the role of Cassandra; we are not caught by any kind of panic.

I have to explain to you my concern, and my party's concern, about the future of the economic development of the world and of Europe and of our countries. The trebling or even quadrupling of oil prices has led to losses of real incomes in every oil-importing nation and has led also to deep deficits in most of those nations' basic balances with the outside world. That does imply a danger to world trade and to all of our exports and thereby does imply a danger to our employment.

The danger of unemployment looms large everywhere and at the same time inflation overshadows the industrial world. And doubtless the most important question facing the European socialist parties at this time is; how can our countries and parties work together to help us survive the world economic and energy crisis and save our people from the twin evils of unemployment and inflation? Large-scale inflation is a great evil for everybody. Large-scale unemployment is indeed intolerable for a Labour Party or a Social Democratic Party.

The question is, what can we do? I certainly do not intend to interfere with the economic affairs of the United Kingdom or to give advice in pursuing the interests of my own people. Let me say, very frankly, that if we fail to establish close co-operation in order to cope with the risks of the present economic problems in the Western democratic societies, we do. I am afraid, put political stability at risk also, and might endanger our privilege to enjoy living in a democratic system.

Unemployment and inflation today are not national problems. They have become world problems in the wake of the crisis of the structure of the world's economic system arising from the energy question and the balance of payments questions. People, both in the United Kingdom and in my country, remember the terrible experiences we have had with inflation and unemployment in recent history. These upheavals did not hurt the rich so much as the working class and their families. *Everybody* will agree that we, as social democrats, have to fight these evils with all our abilities. We are duty bound to prevent this from happening again.

Now, what does this mean? First of all, I think the industrial states have to establish a stringent energy policy by setting aside any seductive ideas of national prestige. We have reached a point where we have to create a formula which can integrate legitimate national interests and the very dramatic need for common action. It is just not sufficient merely to transfer certain amounts of currency from one European country to the other. Of course we have also to do this, and we Germans are prepared to help within the Community because this in fact means helping ourselves. But what really matters is a world-wide effort to avoid any waste of energy, to invest in opening new or substitute sources of energy, to stand

by with mutual help in cases of emergency, and to do all this together. In future Britain might be a little more fortunate in her oil supplies than others. I am glad that nevertheless Britain and the Federal Republic of Germany do agree on the necessities which I have tried to describe just now.

On the other hand, all this would not be enough if we should fail to bring about an institutionalised and workable co-operation between oil producing nations and oil consuming nations including, of course, the oil consuming developing nations who are suffering most.

My Government does not believe in confrontation with the oil producing countries. Quite the contrary. Now, several proposals have been made in the last few months. I refer to the recent proposals of US Secretary of State Kissinger, and also to proposals of French President Giscard d'Estaing a month ago. I am convinced that the existing ideas and proposals comprise elements which can be so organised as to fit into a single scheme, a united scheme. They will be attractive, also, to the oil producing governments. It is exactly that which I strive for, because I am convinced that oil producing countries will also wish to see to it that the stability and predictability of the world's economic development be maintained.

I think it is necessary to understand that the economics of energy and that the means to manage it are closely entangled with the dangerous tensions and the still explosive situation in the Middle East and with the world's ability to cope with that, which I think ought to be done on the basis of United Nations Resolution No. 242, which is exactly, as I know, the position which the British Labour Government is pursuing. I am convinced that both Israel and the Arabic States must be deeply interested in normalising the situation. The same goes for the oil producing countries.

One cannot exclude the possibility of failure. It is all the more necessary to operate along the same lines, and I feel that our joint effort for a concerted foreign policy among the European States has been taking steps in the right direction so far.

I might mention in this context that I have just come back from a visit with Mr. Brezhnev, during which I got the clear impression that the Soviet leaders are seriously interested in the continuation of detente. They represent a very powerful state on the other hand, and a very powerful alliance. Therefore we ought to be careful in order to maintain the balance of power. It is in this context I want to express my gratitude to your Party, and to the leadership of your Party, for the support which Willy Brandt and my Party have received over the years, both in standing firm on our positions in West Berlin as well as in our endeavours for reconciliation and detente with the East. The United Kingdom has always backed the Berliners in their desire to live in freedom.

For a number of years, I have had the opportunity as a fellow Minister to work closely together with the Labour Government in London, especially with my old friend Denis Healey, who at that time was your Defence Secretary. I have known Harold and quite a few other leaders of the Labour Party for 20 years now. I myself was born and educated in the merchant and shipping city of Hamburg. That is a city which sometimes behaves as if it were even more British than the British

themselves. (*Laughter*) I have always been an admirer of the glorious traditions and virtues of your democratic institutions, and in addition to that, in practising international relations I have come to admire the down-to-earth attitude and pragmatic ability of British leaders to solve complicated problems. This has proved itself true again within the Commission and Council of the European Community, and I am not exaggerating in saying that already the beneficial influence of your attitude in handling affairs has made itself benevolently felt. I thank you for that.

This leads me back to the economic situation of Europe. In the last few years economic situations in the countries of Europe have diverged. The Chairman has just hinted at that. In the view of my party, there is only one main reason for the, relatively speaking, favourable development in my country. That reason is economic philosophy and the efficiency of our trade union movement. The number of strikes, relatively speaking, is low in Germany, but nevertheless real income of workers and employees is, relatively speaking, high. We have in our trade union movement learned the lessons from the splits between trade unions during the period of the Weimar Republic, the first German democracy. Nowadays, the elected representatives of the employees of a factory do have a great say in that factory, and the one-and-a-half dozen trades unions in Germany and their Federation have a strong influence, especially on legislation, especially since the Social Democrats became the leading party within the Government 5 years ago.

We have already introduced equal co-determination in the factories of coal and steel, 20 years ago. We are today about to extend this principle of co-determination to the rest of big industry. We regard this as a very important step towards equality between labour on the one hand and management or capital on the other.

In the last two decades, under strong Social Democratic influence, we have underpinned our social structure by an ever closer-knitted network of social security, and if there is any specific factor behind our economic performance of today, it is rooted here. Of course, there is still much work to be done, and the largest room in the world is the room for improvement. (*Applause*)

Let me also say a word on the European Community. Not because that was being predicted by almost all British newspapers, but because I have to say a word on it because I would not serve the interests and expectations of my authority and my country if I suppress the desire of your German comrades to have you British comrades on our side within the Community.

As you know, being a European politician is not all that difficult, because all you have to do is satisfy the farmers, satisfy the trade unions, satisfy a few other groups and still get elected! (*Applause*)

We are, of course, aware that your decision is pending, and that it will depend on the outcome of the renegotiation efforts made by Harold Wilson and Jim Callaghan, and on a few other things also. (*Laughter*) I am not going to interfere with your decision, and of course I am not going to shoot from the hip, as someone has suggested! (*Applause*) But, comrades, with regard to your vote of yesterday, I cannot totally avoid putting myself in the position of a man who, in front of ladies and gentlemen belonging to the Salvation Army, tries to convince them of the advantages of drinking. (*Laughter and applause*)

All I really want to say—even at the risk of a walk-out—is that your comrades on the Continent want you to stay, and you will please have to weigh this. If you talk of solidarity, you have to weigh it. (*Applause*) Your comrades on the Continent believe that it is in their interests as well as in yours, too.

More than often, of course, we ourselves do have our own misgivings about the European Commission and its decisions. I think, for instance, of its agricultural policies. I have no doubt that constantly advancing prices of meat are capable of dividing the people into two classes: those with large incomes on the one hand and vegetarians on the other! (*Laughter and applause*)

But let me also add a sober word on CAP. As in the past, European agricultural production must be oriented to meet the Community's food requirements, whilst making allowance for commercial obligations towards third countries, in particular the developing countries. We cannot afford costly surpluses, the sales of which we have, in addition, to subsidise from public funds. Nor should we hamper free world trade because of our Common Agricultural Policy.

I hope that the agricultural stock-taking exercise—I am not sure whether this is the right English word, but it is an understandable English word, I found it in my dictionary—by the EEC Commission in Brussels will bring to light the mistakes of the past regarding CAP and enable us to correct them.

Of course, Europe is not merely an agricultural affair. We have to concentrate on industrial growth and on industrial cooperation.

My Party feels that the advantages of the EEC so far do have greater weight than the stresses and burdens. After all, it is an organisation whose pace and direction can only be decided by the agreement of all its members. We feel that it provides us with the necessary means for co-operation which we do need to solve the problems of the present-day crisis of the world economic structure.

Of course, we must not over-emphasise that crisis. It is a recession, so far, of the world economy. A recession is a period in which you tighten your belt. If it came to a depression, one might not any longer have a belt to tighten, anti, of course, if you have no pants to hold up. Then it is going to be a panic. But there really is no reason at all for panic. Instead. I think co-operation, if we bring it about, will produce confidence.

Let me conclude by remembering the long history of social democracy in Britain and other countries, in many phases of which my Party has learned from yours. We will not forget either the historic origins of Labour unions and co-operatives, or the intellectual contributions of the Fabian Society or, immediately after the Second World War. Clement Attlee, Ernest Bevin and Nye Bevan. (*Applause*)

I hope that there have also been a few contributions from the German Social Democrats which you might not want to miss. (*Applause*) Let me end. Comrades, by quoting from Shakespeare's Julius Caesar:

“There is a tide in the affairs of man

Which taken at the flood leads on to fortune.

On such a full sea we are now afloat

And we must take the current when it serves or suits our ventures.”

I am, of course, not going to argue with William Shakespeare here. Thank you very much. (*Prolonged Applause*)

The Chairman: Well, Helmut, I am sorry to say you have disappointed the Press. (*Applause*) We do ask you on behalf of the whole of our Conference, this great Movement here assembled, all constituency delegates of trade unions, fully assembled here, of the Co-operative Movement, to convey our fraternal greetings to your great Party, a Party whose achievements we do know and do understand—although I must confess I would not be able to go and address them with the same fluency that you have managed to address us. (*Applause*) We wish them well—please tell them—in your efforts against the background of your economy to try to ensure that your people achieve the same rewards for themselves and follow the same ethical principles that we stand for in our Movement here. Thank you very much. (*Applause*)

Chapter 8

Address to the Council of Foreign Relations, New York, 6 December 1974

This speech by Schmidt before the New York 'Council on Foreign Relations' on 6 December 1974 was preceded by intensive discussions with President Ford and his staff in Washington. In his speech, the Chancellor mentioned several times the results of this meeting, which had been attended on the German side—to the astonishment of his American hosts—not only by the usual entourage of ministers and senior officials but also by leaders of trade unions and by employers. This was not only intended as a demonstration of the social stability of the Federal Republic, but was also meant to illustrate the readiness of major bodies to share international responsibility in the worsening economic crisis.

I am most grateful to David Rockefeller for bringing us together here this evening. I am glad to be here and have good reason to be. Another great American banker, J.P. Morgan, once said, “a man always has two reasons for doing anything—a good reason and a real reason.” My good reason is that I have an opportunity to discuss the worldwide economic problems we in the old continent are concerned about. But the real reason is that I am hungry and am looking forward to a decent meal.

But, let me take the good reason first: It is, I feel, a good thing for as many people as possible in leading positions in the world of politics and business in this country to know what others across the Atlantic are thinking and to know also the basic pattern of the thinking of governments on the other side and of their policies. If this mutual understanding could also embrace the mass media, which of course is a very great expectation to have, on both sides of the water, then this will make the rough road we want to, indeed must, take together much easier.

It is not without concern that I note the word ‘crisis’ is being used more and more to describe the present world economic situation. People speak of a world economic crisis. This arouses chilling memories of the time 45 years ago when we really did have a world economic crisis to contend with, the hungry queued up at the soup kitchens because then unemployment was synonymous with material want and family distress.

In Germany we are also reminded of the decline of the first German democracy and of the political ogre that followed. I must confess that I myself have talked of a structural crisis of the world's economy. But I feel we have good reason not to instill fear of a crisis. A depression can also be talked into existence in the manner of a self-fulfilling prophecy. Yet we have every reason to state quite unequivocally what the world economic problems are and what dangers lurk around the corner if we do not act.

I think that above all we must make it clear that only joint action will restore the necessary long-term stability. And we must bear in our own minds that we—your country, also ours and others—are expected to carry responsibility, due to the great weight we do have in the world's markets and in the economic fabric of the free world.

That is nothing new to you. The American people have a good and sound tradition as far as international responsibility is concerned I must confess in our country it does not come quite as naturally as that. Not so much because people are not willing to help but because there are many who feel we are best advised, in view of our recent history, to exercise considerable restraint in the international field. These are inhibitions to be overcome which are without doubt still deeply routed.

But the need to strengthen out International economic problems requires us to gather round the conference table unbiased and unprejudiced. Such conferences must not be the kind of talks in which, as a comedian once said, many important people meet together who singly can do nothing but together can decide that nothing can be done. Decisions need to be taken. What the United States, by far the largest Industrial country, has to say at that table is of specific significance, but I can assure you that my country will play its part in resolving those problems, though naturally within a more modest scope. Accordingly, there has been a wide range of conversation and discussion and agreement between the U.S. President and his aides on the one side and myself and my aides on the other. I come back to that in a few minutes. But I would like to take the opportunity to tell you that for the first time as far as I recall it, an official visit of the German Chancellor with the President of the United States was paid in a delegation that not only embraced a number of high officials, state secretaries, and the Minister of Foreign Affairs, but also two leading people from the trade unions, one leading Industrialist and also a leading banker from my country. It is not only to show something, but also because we wanted their voice to be heard in the discussions between the American administration and my government, but I also wanted to show something by doing so, namely that in this very difficult time governments do have to work closely together, do have to cooperate with Industry and with the world of financing and with the trade unions as well.

We did in the first instance agree that nothing can be more dangerous than to turn a blind eye to the world's economic troubles. Perhaps one has ignored the

growing symptoms of crisis for all too long already and with too much tolerance. This kind of behavior may have been in the mind of Henry Adams when he made his sarcastic remark that practical policy consists of ignoring facts. I will, of course, not subscribe to that. But I think it is time we really perceive of the facts and their built-in tendency.

The oil shock in October 1973 did arouse us anyway, and has kept us awake, but I cannot conceal my fear, my anxiety, that some political leaders are still not fully aware of the risks we have to deal with.

The bowl of soup on the table of the family of nations has always been a bit less than was required, nor has the soup at any time been evenly distributed, in spite of the fact that the very aim of International policies of recent decades has been to ensure fairer shares. This protracted and extremely difficult process has now taken a dramatic turn in that some of those at the table are using a second, even a third spoon. In this way they are obviously taking more than they can digest and we don't know yet what they will do with it.

As a result, the Janus face of this massive, unplanned and unexpected intervention is already to be seen in nearly all national economies in the year zero, if I may call it that, of the new era; in other words, within the first 12 months following the oil price explosion.

- Additional *inflation* resulting from the growth of energy and raw material prices, fourfold increase in the price of oil in a short time and at the same time a new kind
- of *deflation* caused by the flow of income into the oil-producing countries who do not spend all their new purchasing power on additional imports—and as for the rest they save. The world saving ratio is increasing and also, of course, the ratio of indebtedness of the world as a whole.

Today national inflation rates of between 10 and 20 % are more or less normal. It is a great danger that they are being considered to be normal. You have, I think, about 12 % at present in the U.S.; we have 6.5 %, little luckier than you at present.

At the same time our nations, as a result of shifts in the pattern of demand, find themselves faced with a drop in employment. At this moment the Federal Republic has an unemployment ratio of above 3 %. I think you just have announced that you have reached 6.5 %. These figures are not exactly to be compared because your yardsticks are a little different than ours. The difference is not as big as it shows from the figures. Well, I think one must clearly see that we have already moved close to an era into a point where people are getting worried about their jobs and about their personal economic futures. And that may be worse in other countries than it is, at present in the United States and it is not only the people who are afraid of losing their jobs or being laid off, it is also in many other quarters that economic uncertainty prevents people from doing the right things at the right moment. I have

the feeling activities in the field of investment in real capital expenditures is going down all over the world, the western industrialized world, and thereby adding to unemployment.

The business climate in our countries is not yet showing any signs of warming up by itself. Private investment is stagnating, even falling off. This does not help the conditions for future growth and prosperity. In many countries real wages and salaries are on the down-grade, other countries will follow along that way.

In this situation it would be disastrous for the western industrialized nations to start thinking, even in the back of their minds, about isolationist or protectionist action. That would solve none of the problems anywhere; it would simply be another step towards the paralysis and agony of the world's economy.

I think that it's not really necessary to dwell on this point too long before such a distinguished audience of bankers and Industrialists.

I think we should learn from history, for instance from the consequences of the tariff policies during the world economic crisis of 45 years ago. We could go through a long list of national restrictive measures which rather than cure the symptoms of crisis, made them worse. Let us hope we are not today making similar mistakes. I would like to stress, therefore, if the U.S. is to maintain its economic and political leadership it is now necessary that Congress should pass the trade bill within a very, very short time, otherwise you endanger your national credibility.

This year the nine members of the European Community alone are expected to have a net balance-of-payments deficit of 20 billion dollars, despite the fact that Germany is going to have a current account surplus on the order of 4–5 billion dollars. Such wounds cannot be pasted over with trade restrictions. Such measures would produce further stagnation among all countries participating in world trade, and it would make it even more difficult to get out of this vicious circle.

It is equally important not to overlook the fact that the increased revenue of the oil-producing countries, especially their free surpluses, are thoroughly revolutionizing international financial relations. In this year zero following the oil price explosion, the re-investment of the income skimmed off in this way has worked fairly well, but there is growing-uncertainty about the future. And, after all, it's the future we must care about because that's where we all want to spend the rest of our lives.

There is, I feel, no room for petty quarrels in this. We must all press on together to achieve major, all-embracing solutions. We now need far-sightedness and the sense of responsibility if we are to meet this challenge, if we are to come through this stage of the test. The question is simply whether all the major industrial countries are willing to do so.

After our talks with President Ford and the members of his 'administration, I am confident that our two countries will not shirk their responsibility and duties. And if concerted action with the other industrial countries also can be brought about we shall have success.

As for the past, I agree with your Secretary of State Dr. Kissinger, that collectively we have failed so far. He has told us all that this is the case with regard to food production and food distribution. And I would say that this applies in other respects as well. In the past we have not managed to find a real international settlement of interests in spite of the growing pressure of our problems.

Of course, we Europeans, too, must beat our breasts. What we are doing in Europe must have seemed like a most confusing puzzle to even the most unbiased observer in your country.

Time and again I was being asked: Why can't the nations of Europe live as one big family? The answer is this: We really do live as a big family. But families are very open stages for competition. Under such circumstances no one need be surprised that in the tangle of European competences no stable dialogue between the United States and the European Community has so far emerged, despite the fact that our Interests basically do concur.

We in Europe seem—to have begun by aiming too high. The contours of the European union we have envisaged have not become much clearer; indeed the structure of the European Community is showing cracks and ignorant critics are already asking whether at least the old customs union, the nucleus, is still intact. It is, by the way.

With a few exceptions, we have not managed to make decisive progress with the coordination of national economic policies.

Nor have we managed to establish a firm basis for creating a monetary union. Only five member countries of the European Community are still floating together in the so-called 'snake'.

And so far we haven't fully come to terms with the enlargement of the Community.

We weren't able so far to work out a common European energy policy, not even when joint action by the Community countries would have been necessary to help individual members who were left short of oil on political grounds.

This altogether is not a very encouraging account. Perhaps those who look into the historical motives of these things will one day be able to determine the root causes of this unfortunate development. Put whatever the reasons, it is now absolutely necessary for Europe to get back into its stride.

In recent talks I had with Prime Minister Wilson in London last weekend, I made it clear to our British partner that we wish a Europe that does include Britain. We think that Britain's membership in the European community is in our own interest, and we feel it is in the enlightened self-interest of the British as well. We therefore have to find answers to the problems which are still unsettled at the moment.

Incidentally, our endeavors to establish European unity do not make bilateral relations among the nations of Europe superfluous on the contrary, they are essential to European progress. And I do think that the Franco-German friendship is a service towards European unification. President Giscard d'Estaing and I regard the close and regular harmonization of our intentions to be a contribution to the common European cause.

On 9 and 10 December, the heads of state or government will be meeting in Paris. I set some store by this meeting. We in Europe cannot simply shed tears over the world economic situation and deplore the state of our institutions, and for the rest just twiddle our thumbs. The restoration of stable conditions, economic, social and political, has to begin at home. This means for us Europeans, has to begin in Europe. And we Germans are prepared to help in that process as far as we have the strength to do so. I think we have demonstrated that willingness with the bilateral monetary loan we gave to Italy. We have also demonstrated it by agreeing to stand surely for up to 44 % of the Community's loan from the oil countries. All the same, we do not regard ourselves as Europe's banker—at least not in the words of Ogden Nash, who said that bankers are just like anybody else, except richer.

We are now willing to continue providing such help. We do analyse the American proposal for an additional device to establish a security net within OECD. But we can only make it seem plausible to our citizens if there is a greater awareness of the need to secure stability, for we consider that the days of over-taxing the Gross National Product, of making excessive demands which exceed national productivity by far, will have to be considered at an end if we are not all to be sucked into the whirlpool of inflation.

It wouldn't surprise me if you had something like the following impression: "The German David has climbed onto a chair and pats the American Goliath on the shoulder, saying; 'We'll manage it.'" (And I might be interested to see cartoons along this line in your newspapers.)

Everyone in my country, I would answer to that, and I myself, realize that very much depends now on the world's leading economic powers and we will not leave America to extend a helping hand alone to others.

In my country, as I mentioned already, we have been relatively successful in our struggle to keep prices stable. We did it 18 months ago by taking strong measures in the field of exchange rate policies, domestic monetary policies, taxation and in the budgetary field as well. At the end of this year our rate of inflation will probably keep very close to 7 % as an average of 18 months.

However, under the pressure resulting from the oil crisis this struggle has in fact been more than a tolerable burden on our employment situation. Nor have the export possibilities of our trading partners—which means of course German imports—increased sufficiently because the necessary demand in our country has been lacking.

Pyrrhic victories are meaningless. We are of the opinion that in the present world economic situation, priority should no longer be given to curbing demand. It still of course, remains to be important to stabilize costs, but excess demand which could be removed has gone, at least in my country.

Consequently, we shall now give more room to stimulating economic activity, especially in the field of private investment.

With the aid of public funds and credit policy, we in Germany shall encourage private investment and ourselves increase public investment in order to improve infrastructure. Operational by January 1, 1975, we have modified our tax system to give 14 billion Deutsch Marks tax relief which is also intended to boost demand. The increase in demand will then provide sufficient room for exports by deficit Partners. That means imports to our country. I am very glad to say that your President and his administration agreed with this basic policy line which I have tried to sketch.

We are also agreed that the medium and longterm consequences of the oil price explosion can best be compensated by increasing the productivity of our economies.

The European Community will, I hope, be prepared to follow this basic line, I hope, I said. This means that those countries with current account deficits other than oil will have to step up their efforts to secure price stability at home, and at the same time to make the best use of their opportunities for exporting to the surplus countries, and maybe also to our country.

But the really burning issue of the moment is a common oil policy, including the recycling of the surplus petrodollars.

In the short term we have no alternative to financing balance of payments deficits if we want to prevent whole economies from collapsing. This applies first and foremost to the developing countries, some of whom are already no longer in a position to import the food they urgently need. But there are quite a number of industrial countries which are not much better off.

Up to now the oil billions that have flown back have found their own channels. In your country and in Britain many direct investments have been made the warm wind from the desert seems already to have reached my country too. The European money market, too, has shown itself to have an amazing capacity, having, after all, absorbed nearly half of the funds coming from the OPEC countries.

On the other hand, I think anybody by this time is aware of the overstretching of the capital ratio and many of the institutions which manage this kind of recycling. Sometimes this summer I had the feeling that the central banks should have a closer eye on the whole development in that field and I think in common a rather secretly approach to their complex of problems. I am convinced that they are better prepared now than they were, which is of course a remark implying any criticism of the way which the Federal Reserve Board helped to manage that Franklin National incident in this country. From hindsight and not being a banker myself, but from my government's point of view, I would like to congratulate the United States on how they managed to deal with that specific situation, especially when I compare it with our inability to deal with another situation to some degree similar to what has happened here.

However, with deficits growing, the question of borrowers' financial reliability comes into the foreground. He must also make sure that the surplus oil money is

integrated in the long term and not merely used for short-term speculative transactions.

I would like to insert a remark here. Many of you might have read in the last 6 or 7 days or so that Kuwait bought a number of shares of Mercedes Benz in Germany. This buy caused a great row. I would like to remark that of course, we had to educate ourselves so as to make ourselves able to understand that some portfolio and direct investment from the oil countries is necessary in our own economy.

Whether we do like it or not, even if we don't like it in the first instance, we have to educate ourselves because besides other advantages, and there are also of course disadvantages, but besides that, this is the only way in letting these people in those countries understand how economies work and to understand the structure of our countries. If they had held big packages of shares in all of our automobile industries I think they would have behaved a little differently from the way they have. This is just a small example. I think that we have to educate ourselves, and in permitting them to invest in our industries. Of course there are limits of which I can clearly conceive. It would be difficult to define them. Of course, it was a very unpleasant thing for those who thought of this transaction which I was referring to but they did so absolutely secretly and then did not even tell their own government about what was going on. ... (Recording unintelligible.) We hope to maintain our liberal attitude, however and we do not intend to regulate foreign investment on our soil, nor German investment outside of our own borders. Of course there are limits. We would have no objections if some oil exporting countries would buy up 100 % of, for instance, the German affiliate of Coca Cola—nothing against that. But we would of course on the other hand, have some second thoughts and might indeed intervene if we would observe a transaction being prepared that would involve, let us say, a considerable part of the shares of that corporation which produces three-quarters of our nuclear plants. They will have to understand it; they will have to learn it, but we should not allow our emotions to take us away from rational judgement.

I would like to repeat that some direct and portfolio investment by the oil surplus countries in our industry seems to be necessary. It is one of the many ways which comes under the modern catchword recycling.

The multilateral institutions will have to assume a supplementary role in addition to direct borrowing, if I come back to the other varieties of recycling.

We are willing to examine every proposed solution seriously. We feel that the following points should not be left out of consideration:

1. The deficit countries must not relax their own efforts,
2. The developing countries should be included,
3. Investing countries must not be relieved of every risk.

In the institutional sphere we have made good progress with the foundation of the International Energy Agency under the roof of OECD. The organization of economic cooperation and development, an organization of the 22 industrial

countries of the world and that agency, I think, will help us to improve our coordination in

- Saving Energy,
- Developing substitute sources of energy,
- And in taking joint steps to overcome any supply bottlenecks.

Finally there remains the question of the dialogue with the producing countries. We need the dialogue because without it we cannot achieve any stable agreements on oil prices and oil quantities, because without the dialogue we will not be able to eliminate threats, and because without the dialogue we shall have confrontation instead of cooperation. I am not too optimistic about the possibilities of bringing oil prices down. What I really feel is the urgent need for transparency of the next few, let's say 2 or 3 years, continuity for the next 3 years. I think there are a few people already now in the oil exporting countries who start to understand that it was just too much which they did put on the rest of the world and that already the adaptability even of market economies has been overstretched. Beginning to understand that it will take us quite an effort to make others understand but I really do think that this can only be brought about in a dialogue and not in shouting at each other.

It would, in my opinion, indeed be tragic if oil-consuming countries and oil-producing countries were not able to sit down at the same table. What steps will have to be taken to get us on that table will have to be considered. Differences of opinion among individual consumer countries will have to be put right, and they can if they come to appreciate more than they have done in the past that a common approach is the better key to the solution of the oil problem.

In view of these facts you will agree that political action is essential.

We cannot stand on the shore watching someone drown and be content to call: "Learn to swim!" We must jump in ourselves if we want to make sure that we will not one day ourselves be struggling in the open sea without any help.

The worldwide economic turbulences can escalate at a frightening speed. Inflation, unemployment, decline of growth, a lower level of prosperity, and deficit balances of payments merge to form a set of economic data of explosive or to say the least spiraling capability.

In this situation nothing can be more important than regaining stability in a wider framework—that is not only price stability but stability of employment, stability of real incomes, stability of social conditions. Only thus can we be sure that the political stability of our democratic structures will be preserved.

Nobody should think he can achieve more by going alone. I would like at this point read to you two or three paragraphs from what President Ford and I did agree upon this afternoon in Washington. You may judge by yourself whether and how far the United States and my own country have at present met what I have described as being necessary or how far they may have failed so far. Let me quote please:

The United States of America and the Federal Republic of Germany recognize the responsibility which falls to them for ensuring a prosperous international economy and safeguarding world trade. In this context they attach great significance to the upcoming multilateral trade negotiations. They reaffirmed their international pledges to avoid trade and payments restrictions which adversely affect other countries. The President and the Chancellor agreed that in current circumstances they both have a responsibility to manage their domestic economic policies so as simultaneously to strengthen output and employment and to avoid new inflationary impulses. They affirmed that both countries have a need to encourage investment, to combat rising unemployment and to act to increase confidence in the financial and the economic outlook. They recognized that the two countries are at different points in their fight against inflations, and that their policies will take that fact into account. They are determined not to permit a serious deterioration in their economies to occur. If necessary, they will step in with adequate measures to prevent it.

And I might add as well in bracket that we are going to step in, in a very few days. Allow me to continue to quote:

The United States and the Federal Republic of Germany agreed that determination and cooperation are also necessary in dealing with energy-related problems. They underlined the importance of the International Energy Agency set up within the framework of the organization for economic cooperation and development to coordinate the energy policies of the industrialized countries.

They attach particular importance to measures to reduce dependence on imported energy through conservation, more economic use of energy, and opening up of alternative sources. They stressed the need for cooperation in the field of research, notably in relation to coal processing and gasification.

Despite cooperative efforts to reduce dependence on energy imports, the President and the Chancellor recognized that in the coming year there will continue to be large scale imbalances in trade among nations and a corresponding necessity for large international flows of funds. They recognized that these flows for the most part have been, and in all probability will continue to be, handled by existing private and official channels. At the same time they agreed on the necessity of close cooperation among the financial authorities to ensure the continued safe and orderly functioning of financial institutions in their expanding International roles. They agreed on the importance of the International Monetary Fund and other multilateral financial agencies being in a position in 1975 to provide flexible, responsive financial assistance to any member nation facing international payments difficulties arising from the rapidly changing economic situation. In addition, to ensure that industrial countries which follow prudent and cooperative economic and energy policies have access to adequate financial resources in case of need, the President and the Chancellor agreed that early consideration should be given by these nations to the establishment of a supplementary financial safety net in the framework of the OECD.

The President and the Chancellor also stressed their determination to improve cooperation with the oil-producing countries. They expressed the conviction that further economic Progress in the world, both in the developing and the developed countries, can only be resolved by means of worldwide cooperation.

I think it is the first time that the government of my country has so closely consulted the United States before taking major economic steps. We are also going to consult our partners within the European Community Monday and Tuesday next week and thereafter, I think we make our decisions.

I really feel that if I may again stress that those countries which—up to now at any rate—have come relatively unhurt through the oil shock must be prepared to assume additional responsibility and additional obligations. They must not refuse to give a helping hand.

We might have to adapt different economic policies given the different economic stages we are in, given the different economic structures, but what we ought to make sure is that they are complementary policies devised to meet the same goal in the end.

Thank you very much for your attention.

Chapter 9

Helmut Schmidt: Private Memorandum on International Concertation of Economic Action, 30 July 1975

On 30 July 1975, Helmut Schmidt gave the following private memorandum to President Gerald Ford, Prime Minister Harold Wilson and President Giscard d'Estaing. He had discussed it with Giscard d'Estaing; it outlined several topics that they proposed be discussed at the summit conference of Western industrial nations on economic and currency issues that both had suggested for the autumn of 1975. Schmidt wanted to counter the pessimism that obtained in many countries since the first oil price crises, especially among private investors, to limit the effects of a policy of high interest rates being pursued by the American Federal Reserve, and to reconcile the differences between the United States and France on currency policy. In this way he wanted to make it easier for the American President to agree to the first world economic summit.

After the high-level talks on the world economic situation, which has led to a tangible improvement in the climate, what is important for us now is to agree on concrete steps to stabilize the world economic situation. Otherwise, I believe there is a danger of a set-back in international public opinion.

Our most pressing task is to reactivate private investment and to get back to a satisfactory rate of growth.

The Federal Republic of Germany and France have therefore agreed at the end of August to put into effect new conjunctural programs, based chiefly on public investments, to stimulate domestic demand. Denmark will follow suit. It can be assumed that this course will also be adopted by the Benelux countries. The British program steers in the same direction? Its primary aim is to curb wage costs and inflation rates, since economic growth in Great Britain has suffered primarily from wage cost inflation. The US Government should examine whether the upswing in the USA is already so secure that no-further fiscal measures are necessary.

In order to encourage firms to invest, I feel it is necessary to continue the cheaper money policy.

However, the German Federal Bank is here increasingly coming up against limits set by the monetary policy of the Federal Reserve Board. The Federal Reserve Board has in recent weeks returned to a tighter money policy which in the United States has already led to a rise in interest-rates. This means for the German

Federal Bank that it is not only psychologically but in particular also in practice very difficult to stick to its low interest-rate policy, which is essential to reactivate our economy, because the manifestly higher interest-rates in the United States exercise a pull on our money and bond markets. Other European countries, too, feel unable to make money still cheaper.

The Federal Reserve Board should not gear its money supply and interest-rate policies solely to American domestic considerations, but should also take more account of the international repercussions of its policy.

I suggest that the Directors of our central banks should, if possible by the end of August, agree on a co-ordinated policy to lower interest-rates. Concerted action in the field of interest-rate policy would not prejudice the strengthening of the dollar rate, which we welcome.

In the present situation it is psychologically important, if the economic situation is to improve, for the Annual Assembly of the IMF to produce concrete results in a range of monetary policy questions. Only in this way can it be demonstrated that the present world monetary system is also viable in times of economic crisis.

I do not, however, believe that the United States and France will reach agreement quickly on a future exchange-rate system. We should therefore not attempt to find a solution to this problem at the IMF Annual Assembly. Nevertheless, the settlement of this question is of vital importance for the world economy and for world affairs in general, so that we should put this down as an item for discussion at the planned economic summit conference.

It should not be difficult, on the other hand, to reach agreement on the increase in IMF quotas and also, in this connection, on the fixing of new quotas. The United States could agree without risk to reducing its quota to under 20 %, as its blocking minority is not to be affected.

As far as the question of gold transactions around the central banks is concerned, I see only minor differences of opinion. In Europe no one is thinking of a return to the gold standard or of the re-introduction of an official gold price. The United States could therefore be satisfied with a global limit on gold transactions.

As regards the utilization of IMF gold there are no longer any fundamental divergences of view. The Federal Republic believes in principle that the utilization of the IMF gold on the basis of a division into three equal parts would be the right course, but it would also agree to a different basis for allocating it.

Before the end of this year a summit conference should be convened to discuss questions of the world economy and the world monetary system. As I see it, the participants would be the United States, Great Britain, France, Japan, the Federal Republic, and possibly also Italy.

The Conference should be prepared by the personal representative, of the heads of State and Government.

I suggest that at the luncheon of the Four in Helsinki the proposal of Giscard d'Estaing to convene a summit conference be adopted.

The Paris meeting to prepare the conference on oil and raw materials questions should be resumed at the beginning of October. The invitations to this meeting should be sent out by the end of August, that is, before the OPEC meeting.

The Federal Republic supports the proposal to set up, in addition to the three commissions suggested by Secretary of State Kissinger on energy, raw materials and development questions, a fourth commission to deal with financial questions related to the subjects discussed in the other three commissions. I consider that this fourth commission could deal, for example, with the repercussions of the OPEC price policy on the monetary system, the money and capital markets and the balance-of-payments situation of the industrialized and developing countries. In recent months these problems have receded into the background as a result of the recession. When the world economy picks up, they will again become more acute.

The inclusion of these topics in the dialogue seems to be the right way to ensure that the OPEC countries assume a greater share of the responsibility for the stabilization of world economic relations.

In general we attach great importance to a co-operative approach to the oil-producing and the developing countries. Any aggravation of the conflict leads in the industrialized countries dependent on the world market to deepening pessimism and recession. At the end of August my Government will transmit to you a general concept based on both careful analysis and on systematic discussions with the most important oil-producing and developing countries.

Chapter 10

Speech in Rambouillet: World Economic Summit, 15 November 1975

At the invitation of President Giscard d'Estaing, the first world economic summit between the six major industrial states (Canada joined in 1976 as the seventh country) met at Chateau Rambouillet, about 50 km south-west of Paris. After a welcoming speech by the host Schmidt chaired the first session. The chairing of the discussions on the different topics rotated from one head of state or head of government to the next. In his Economic Outlook, Schmidt started off with his guiding theme of an economic interdependence that was as indivisible as world peace. In his reflections on the prevailing economic situation he drew a warning from the failure of policymakers at the beginning of the 1930s. Besides short-term measures to stimulate private investments and private consumption, he mentioned several medium-term steps, including the containment of global inflation as well as an agreed policy on interest rates with the United States playing a central role. As for his own country, he emphasized the high rate of more public expenditure, 8 % of the Gross National Product (GNP) for the years 1975 and 1976. He thus stressed the importance of an anti-cyclical policy in the case of a rise in imports: these had increased to some extent in the Federal Republic but dropped sharply in the economies of the other participants in the summit. His prognosis for the development of the world economy was in general one of "cautious optimism".

10.1 Economic Outlook

10.1.1 World Economic Interdependence

1. Our host and friend, Valéry Giscard d'Estaing, has just given us a most impressive survey of the subjects to be discussed and the worldwide problems confronting us.
2. It seems logical that my own subject should come right at the beginning; for it will depend decisively on the further development of worldwide economic

activity how much progress we shall be able to make in the spheres of trade and money, commodity and energy, and in the dialogue with the developing countries.

But, vice versa, the decisions we make in all these fields will for their part have important effects on the cyclical trend.

Such interdependence makes it hard for me to leave the other subjects largely out of account, but I shall try not to anticipate later discussions any more than is absolutely necessary.

3. Just like world peace, the world economy today is indivisible. No country can solve its problems lastingly on a national basis by going it alone or even without considering the interests of other countries. We are all sitting in one and the same boat. And although we know this, I have occasionally had the impression that we have not drawn the necessary conclusions from such knowledge. In many instances the co-ordination required was lacking.
4. I therefore welcome this meeting as an opportunity for an exchange of information but also for synchronizing our approach to central world economic problems.

10.1.2 The World Economic Situation

5. It is thanks to our insight into worldwide interrelationships and to our co-operation so far that the most recent crisis in the world economy did not lead to a world economic crisis similarly to that in the early thirties. We have been spared any spectacular collapses of stock exchanges or banks. And I do hope that the financial situation of the city of New York will not lead to a crisis of confidence in international capital markets although I am deeply concerned about developments there—if I may say so quite frankly.

At the beginning of the thirties statesmen believed that they could bring the situation under control by cutting down on public spending, by trade protectionist measures, and a devaluation race. Today, we know more about economic relationships.

6. The causes of the almost synchronous recession of 1974/75 in all industrial countries are not the causes of the world economic crisis 45 years ago, but they are hardly any less harmful or dangerous. I do not mean here to embark on any research into causes but merely to ask, self-critically, have we in recent years always done what was necessary and have we always done it in time? It is my impression that we are not entirely free of blame for the growth of inflation. For too long we have combated inflation by half-hearted measures and underrated its harmful consequences.

Naturally, some of the roots of inflation and recession lie largely outside our sphere of influence, such as the oil price explosion, which has undoubtedly given momentum to the most recent inflationary and recessionary tendencies. It

is imperative, therefore, that we should make the oil-producing countries even more aware of their share of responsibility for world economic developments.

7. Characteristic signs of worldwide recession are primarily a decline in the volume of world trade and in the national products of industrialized countries. In earlier years world trade always increases more than world production. In 1975, however, it has been shrinking for the first time. Except for the Federal Republic of Germany, all industrialized countries have cut down on their imports, in real terms, even more so than on their exports.

This year the industrial countries are having to put up with a substantial decline of growth rates. The average national product of all OECD countries will be down by at least 2 % on the previous year.

8. The heaviest mortgage of this economic setback, however, are the high unemployment figures. At the present about 15 million are unemployed in the OECD area and we must be prepared for even higher figures in the winter months.

10.1.3 World Economic Objects

9. Our foremost objective must be to improve the employment situation again, to bring down the high unemployment figures. If we do not succeed we shall have to reckon with an aggravation of the social tensions and unrest in some countries.
10. The main prerequisite for such an employment policy is the revival of economic activity. This will include:
 - policy stimulating private investment,
 - a policy not inhibiting private consumption,
 - a policy giving priority to overall economic and cyclical aspects rather than budgetar considerations in the field of public spending and the financing of deficits,
 - a monetary policy promoting expansion and preventing a growth of interest rates.
11. However, it will not be enough for worldwide economic activity simply to pick up, the recovery must last, and it is therefore important to change the course in good time for a medium-term growth policy to follow the short-term policy to boost economic activity. In this connection incomes policy assumes an important role.
12. But the upswing will only be of lasting effect if the inflationary trend can be kept from going up again. And for that reason the measures to combat inflation must be continued, the inflationary level is still dangerously high and we must ensure that the most recent successful efforts to stabilize the upswing do not lose their effect.

10.1.4 Chances of Success

13. The situation and the problems and aims ahead of us are clear. But what are our chances of success?

Have our programmes to stimulate economic activity been effective?

I feel we have succeeded with the aid of our programmes in plugging many of the gaps in demand, the leaks in our common boat. We have used new instruments and have not been afraid to pursue unusual courses. The programmes have stopped the decline of orders and production. I believe the nadir of recession lies behind us.

14. But we still have to ask: will the measures taken suffice?

Since some of the most recent measures are still in the pipeline and still to show their effect, it would seem advisable to wait a while before considering the use of further stimulating measures. At the moment I do not yet dare to say that we shall manage to get out of the recession trough without taking additional action, but there is no doubt that the conditions for renewed upswing have improved. The initial signs of economic recovery can be seen above all in the United States.

15. In the United States, production, consumption and the national product have been increasing noticeably again recently. U.S. tax and financial policy is sticking to expansionary course. U.S. monetary policy, I feel, could be geared a little more to expansion, but I welcome the news that the prime rate is showing a slight downward trend. Too early and too sharp an increase in interest rates can, in my view, be neither in the American interest nor desirable from the world economic point of view.
16. In Japan, too—as far as I am able to judge from far off—there is a recovery trend though it is perhaps a little slower than in the United States. The four programmes to energize the economy are having their effect.
17. In Western Europe, recovery is on the whole progressing more slowly than in the United States. In spite of higher real incomes there has been but a slight increase in consumption and investors are still holding back. Demand and production are likely to revive in the winter half year, however, first in the Federal Republic and France where it will probably be more marked than in Italy and Great Britain.

10.1.5 German Cyclical Policy and Prospects

18. The German policy to reactivate the economy has been effective. Earlier than other countries we began to take counter-measures which initiated the most extensive programmes in our economic history.

Within the space of a year we put 30,000 million DM directly into circulation

by means of several investment and employment programmes and by tax reductions under reform legislation. This amount represents 3 % of the national product, not counting indirect effects.

Public spending has been highly expansionary. In 1975 federal expenditure (including the supplementary budget and special programmes) will have risen by 18 % and overall public expenditure by 15 %, compared with nominal rise of 4 % in the national product.

Compared with 1974, the public financing deficit will have jumped from approximately 50,000 million DM to some 80,000 million DM, that is 8 % of the national product. This, too, reflects the huge dimensions of our anti-cyclical policy. We have stretched it to the limit of what can be justified.

19. The most recent cyclical data show a renewed upward trend. There was an increase in production and incoming orders in September owing to greater economic activity. It is particularly gratifying that orders from abroad, which had been rapidly dwindling, have increased again of late.
20. The unexpected sharp decline in foreign demand and exports was the reason why we got so deeply into the recession trough in the first half of 1975. Four fifths of the decline in our national product during the first half year can be explained by the decline of our external contribution. In that period we had to cut down on our exports, especially those to other industrial countries, even more drastically than other comparable countries.
21. Yet, in spite of the fall of exports and its negative repercussions we have succeeded in stabilizing domestic demand, and this is the reason why our imports have also been rising.

In the first half of 1975 the Federal Republic imported 2 % more, in real terms, than during the same period last year. For the other countries the figures are:

Great Britain:—9 %; United States and France—15 % each; Italy and Japan:—19 % each.

By the sharp decline of exports, the slight rise in imports and the massive reduction of its balance of trade surplus, the Federal Republic has been making a contribution not only towards reducing international payments imbalances but also towards strengthening the upward trend in other countries.

22. I now look ahead with cautious optimism, though I have come to be wary about forecasts. Our research institutes (and our committee of economic experts) predict a real growth rate of 4 % for 1976.
 23. With such a prospect it will be necessary for financial policy to continue to avoid any contractive effect. In 1976 we shall have to live with budgetary deficits at least as large as those of 1975.
- Monetary policy will pay an increasing role in efforts to ensure the upswing. We want to avoid an increase in interest rates at too early a stage.

10.1.6 Worldwide Cyclical Prospects and Economic Policy

24. As far as I can see your attitude is also one of “cautious optimism”. The OECD forecasts a growth rate of 3–4 % for member countries in 1976. However, experience has taught us to take such predictions with a grain of salt, and this is what I do.

I do not think that, with such a prospect, expansionary measures are needed for the time being. But we must equip ourselves for a contingency and be prepared, should economic revival be delayed, to take concerted action.

25. We must in particular, by means of a sensible trade and monetary policy, underpin the possible upswing.

I would suggest that to ward off an new protectionist tendencies—which, incidentally cause me concern—we should reaffirm the OECD trade pledge, which still applies, and try to speed up the GATT negotiations.

I also suggest that our central banks, by intensifying their policy of intervention in the exchange markets, continue their efforts to ensure more stable exchange rates, especially of the dollar. Agreement in the near future on the the wording of IMF articles on the exchange rate system would also be important. It would demonstrate to the public that we are on a common course. We shall have to discuss this point in detail.

Chapter 11

The Case for More Intra-European Monetary Cooperation. Summary of Comments Made in Copenhagen, 7 April 1978 (Personal)

During the meeting of heads of states and heads of government of the EC countries at Marienborg near Copenhagen on 7 and 8 April 1978, and in consultation with the French President Valéry Giscard d'Estaing, Helmut Schmidt relaunched a proposal for closer cooperation on currency issues within the EC. This had been initially conceived in 1972/1973 but had repeatedly been postponed due to the consequences of the oil price crisis. Conditions had now improved. During the French Parliamentary elections of 19 March 1978, the centre parties on which Giscard d'Estaing was especially relying had been able to increase the number of their seats at the expense of the Gaullists. Although trade between EC countries had been growing more slowly than world trade, Schmidt was able to demonstrate that between summer 1975 and the end of 1977 imports from other EC countries to the Federal Republic had increased by 30 %, while Germany's own Gross National Product had increased during the same period by only 10 %. In the light of increasing structural changes in the world economy—caused by the growing American balance of payments deficit and the rise of new industrial states—he argued for combining the available instruments of the EC in a European Currency Fund. In order not to provoke early alarm among possible opponents of closer European cooperation such as the German Federal Bank and the stock markets in London and New York, he continued to avoid using the expression “European Currency System”.

1. I am not satisfied with the rates of growth we are likely to realise in Germany and in the Community in 1978. But I simply cannot see how we can achieve a higher rate in Germany without a higher rate in the Community. Last year, at the London Summit, I promised I would take further action if we failed to meet our growth projections. In the event, such action was taken rather rapidly by act of parliament effective before calendar 1977 and it has begun to show its effects. German GNP increased at an annual rate of 6 % in the last quarter of 1977. But because of the currency turbulences, below-average temperatures and industrial strife in some sectors the results for the first quarter of 1978 will

be much less favourable. This cannot be cured by taking a few quick "growth decisions" which I would be delighted to take if only somebody could tell me how to reach 4 or 5 % of growth.

The lesson we have all learnt in the past few years is that growth cannot be ensured by taking some Government decisions. Particularly in an open economy, strongly dependent on world market conditions, growth is the outcome of a very complicated process to which Government decisions can contribute but which they cannot control. It is for this reason that I am very I reluctant to agree to a quantitative growth target for the Community as a whole; it may very well be that we are already proven wrong a month from now.

I am fully aware that in 1977 intra-Community trade has increased less than world trade. This is a great challenge to all of us but I wonder how close the relationship between intra-EC trade and GNP growth really is. The structural crisis which we are going through probably reached its lowest point sometime in the second quarter of 1975. If I take the ten-quarter period from 1975 II to 1977 IV, real GNP in Germany has risen slightly in excess of 10 % but the volume of our imports from EC countries has increased by almost 30 %. Would our imports have been significantly higher if GNP had increased by 12 rather than 10 %? I doubt it and I am sure you will agree with me.

I would like to add that we should not accept our trade deficit vis-a-vis the OPEC countries as an act of God. Germany has wiped out its bilateral deficit with OPEC, which had tripled between 1973 and 1974. We hope that other member countries will soon be able to do the same.

2. How did we get into this mess? The first thing that comes to my mind is US inflation. During the Vietnam-years too many greenbacks were spread around the world. The Euro-Dollar market was created. We were worried about it at that time, small as it was by today's standards. But today the Euro-Dollar market has been extended from London via Luxembourg to the Caribbean and Hongkong. It may reach 600 billion dollars this year, and I would not be surprised if it were to reach a trillion dollars in the early eighties. Since 1971 (abandonment of gold convertibility) and even more so since 1973 (abandonment of par values of the dollar) there are no longer brakes and limitations or even countervailing powers.

It was this increase in international liquidity which made the enormous increase in oil prices possible, and I am afraid that we will experience more of the same. Last year international monetary reserves increased by about 55 billion dollars, the highest increase in a single year ever recorded. To a great extent, this is a reflection of the US balance-of-payments situation. In 1977 the US trade deficit was some 30 billion dollars and the current account deficit amounted to 20 billion dollars. But the US also had a 15 billion dollar deficit on its capital account.

Thus the overall deficit was 35 billion dollars. And who financed this enormous deficit? Essentially the central banks of Japan, Switzerland, the Netherlands, the United Kingdom and Germany and some other G-10 countries

which bought a total of almost 36 billion dollars (net) last year and reinvested a large portion of it in Treasury Bills so that the American administration did not have to worry too much about US balance-of-payments deficit. The Bank of England alone bought 16 billion dollars. Can it do the same in 1978? Of course it cannot. Just as the Bundesbank cannot continue to buy dollars on the same scale as in the last 6 months. And without a dramatic turnaround in US policies regarding energy and inflation the likely result will be a further decline in the exchange rate of the dollar and a further erosion of confidence in what used to be the store of value for people all over the world. And countries whose currencies will follow the dollar will experience a higher rate of inflation than those whose currencies appreciate against the dollar. If Germany can keep its rate of inflation to about 3 % in 1978 and if the Swiss rate is even lower, this is largely the result of the upward float of our currencies which has lowered import prices. To a certain extent, Denmark, Norway and the Benelux countries have followed the same policy—with similar beneficial effects.

3. But the currency situation is not the sole cause of the structural crisis we are facing. We all experience certain difficulties in industries like steel, textile, shipbuilding and footwear. All these industries face severe competition from developing countries or, more generally, from lower cost/lower price countries. In a way this competition is of our own making. We made the capital and the technology available to many of these countries and they combined it with cheap labour. It is obvious that one day the developing countries will be more competitive than we in additional fields as well. The answer to this problem is not protectionism, trade war, etc. The answer is adaptation of our industries and concentration on those sectors where we can hope to remain superior and competitive for some time. In this process we must fully take into account the interdependence among the Nine, and before long the Twelve.
4. The question is what we can do to turn the tide. Closer monetary cooperation would seem to be an obvious candidate but we will probably have to move beyond *monetary matters proper*. We may also have to move beyond the snake (which by the way is an obsolete word since there is no longer a tunnel) and think of a new animal altogether. We have most of the instruments already at hand.

I am referring for example to the *European Investment Bank* (EIB). Tomorrow we are going to approve a *doubling* of the capital of the EIB. The question is whether the EIB should continue to borrow dollars and pounds and marks or whether it should *issue bonds* and make loans denominated in *European Units of Account* (EUA) to finance additional investment, and thus create additional employment, in certain regions and certain sectors of the Community. In this connection we may also wish to reconsider the question whether interest payments on EIB loans should be subsidised out of the Community budget. We already have, on paper at least, a *European Monetary Cooperation Fund* and we could transform this Fund into a European Monetary Fund based on the European Unit of Account (EUA).

There are many things one can do in this field with the existing instruments. One need not do away with all our national central banks as Roy Jenkins has proposed. I would not go so far as that. But whatever we do must be practical and credible and that means we will probably have to think somewhat bigger than we have been accustomed to in this field. It is not sufficient to draw up emergency plans for 1978.

Whatever plans we draw up must deal with our immediate problems but they must also go beyond 1978 and try to tackle the problems of the 1980s as well.

5. There are plenty of ideas around. The central idea is for the Community to pursue a joint exchange rate policy vis-à-vis third countries. This is not a new idea but the division of our countries into snake countries and those outside the snake has made such a policy virtually impossible. There is the idea that we in Europe should reconstruct the Bretton Woods-system amongst ourselves, i.e. establish parities for our currencies and very narrow margins around them. I am not sure whether all of us could actually live with very narrow margins, narrower than hitherto in the snake, but the alternative of establishing only a very loose relationship between the member countries inside the snake and those outside the snake does not strike me as being terribly meaningful. Thus we may have to strike a balance somewhere.

If we want to maintain greater exchange rate stability between our currencies we will have to intervene in the exchange markets and we will need the means to do so. Fortunately we already have a number of support mechanisms in the Community which we can draw upon:

- the very short-term (automatic within the snake) monetary support (30 days),
- the short-term monetary support (3 months with the possibility of a renewal),
- the medium-term financial assistance (2–5 years).

Some of these mechanisms have recently been increased. Whether they would be sufficient to support a closer system of monetary cooperation will have to be examined.

In addition we have the *Community loan facility* which was originally conceived as a European oil facility and which could be expanded. We might also wish to study whether we also need a long-term (5–10 years) support mechanism; I would assume that the EIB can take care of most such requirements.

6. All of this could go along with a *larger role for the EUA* which might well become a monetary instrument/peculiar to the Community. The instrument would be issued by the European Monetary Fund in exchange for national currencies and it would be used for transactions between the central banks of the Community. It would replace the dollar as a means of settlement. We could also entrust to the European Monetary Fund the task of managing the value of our currencies in relation to the dollar, yen, etc. If we were to do so we would have to pool a certain fraction of our reserves. And add some of our own currencies. Germany would be willing to do so. Eventually the EUA might become a *reserve currency*; OPEC countries might be interested to

invest a part of their surplus in EUA. And anyway some time in the future the Fund might issue EUA-denominated special drawing rights to its members. While full membership would be confined to Community countries, *other countries might become affiliated*. Certainly Norway by virtue of its membership in the snake; others like Austria or Switzerland might seek such a relationship at a later stage or might cooperate *de facto*.

7. The scheme would not make the International Monetary Fund obsolete. The IMF would have to monitor and coordinate the exchange rate policies of Japan, the US and Europe. For many countries it would continue to be the lender of last resort, namely for those who have no one else to turn to. It would have to continue to act as the clearing house between the yen area, the dollar area and the EUA area. The latter might well go far beyond the Community and include for instance many of the ACP countries related to Sterling or the French Franc.
8. I personally believe all this would strengthen the dollar. To the extent that the EUA became an alternative reserve instrument it would take pressure off the dollar. And the larger the number of countries participating in the scheme ('system'), the less volatile would US/European exchange rate movements be. In any case, there is absolutely *nothing anti-American in the scheme* although it might lead to the EC becoming a little bit more inward-looking than in the past.
9. During the start-up period the scheme would have to be very flexible. Intra Community exchange rates would have to retain a fair amount of flexibility. I would like to remind you of the fact that over time there have been quite a few revaluations and devaluations within the snake but it all happened in an orderly manner and without great fuss. Overall the scheme would lead to much greater stability. It would reduce the role of the DM as a future reserve currency and possibly establish the EUA as an alternative reserve instrument.
10. These then are some of the ideas which I wanted to share with you. They are very private ideas. They are not a German proposal. They do not even represent a proposal, formal or informal. They are intended to go beyond 1978. They can be enlarged upon. They can be reduced. The details need very thorough examination indeed. It will take at least a month or two of study before you can make up your mind on whether it is worthwhile to pursue these ideas further.

Chapter 12

International Affairs Institute, Lagos, 27 June 1978

Schmidt delivered the following speech to the International Institute in Lagos, Nigeria, on 27 June 1978. It was the first visit of a German Chancellor to sub-Saharan Africa, and it included a visit to Zambia. In previous years he had met several leading African personalities in Bonn, including Julius Nyerere, the President of Tanzania, and Leopold Senghor of Senegal. In international conferences he had repeatedly highlighted their situation that had further worsened due to the oil price crisis. For this reason, in this speech he acknowledged Nigeria's constructive role in the OPEC negotiations on oil prices and oil quantities. He also illustrated the growing mutual dependency between industrial and developing countries by reference to the Federal Republic's balance of trade in 1977, where trade with the non-oil-producing countries had shown a deficit of close on three billion dollars. The then Nigerian head of government, Olusegun Obasanjo, maintained friendly relations with Schmidt after his time in office had ended.

12.1 Introduction

Mr. Chairman, Excellencies, Ladies and Gentlemen!

Let me begin by making a confession: I have been looking forward with special pleasure to my visit to Nigeria. This great country has not only moved particularly far ahead in its development but it is One of the politically most important countries of the African Continent. This first visit of a German Chancellor to Nigeria—indeed to Africa south of the Sahara—takes place at an extremely critical moment of the development of an independent and free Africa. It should in my opinion be understood as a visible expression of our desire and our will to seek together with you ways and means which bring our two continents Europe and Africa, linked by historical ties as they are, even closer together.

I have come to Africa in order better to understand your concerns and your hopes and to hear in a frank exchange of views from you how you imagine to solve your problems.

Europe and Africa are not only geographical neighbours, but they are natural and ideal economic partners. From this follows that the Federal Republic of Germany cannot pursue a policy towards Africa which would exclusively be determined by our own German interests. It must rather be embedded in the interregional network of political and economic relations between Africa as a whole and the European Community.

What are the interests we as Germans and as Europeans have in Africa? We wish Africa to achieve steady economic and social growth in political stability: The experience we have gone through in recent German history has taught us that upheavels and war are no suitable means to solve political and economic problems.

The safeguarding of peace is therefore the most important pillar of our foreign policy. Peace and stability can prosper only on the basis of genuine independence. Liberation from colonial rule in itself does not yet produce true freedom:

It must be safeguarded by a continuously developing economy within secure and respected frontiers. The assistance we provide for development purposes is therefore not motivated by charity but by sober-minded considerations of self-interest: We want to help the states of Africa to become strong economic partners with whom we can engage in mutually beneficial commercial exchanges. Later on I'm going to explain our ideas about such cooperation within the framework of a more equitable world economic order aiming at a fair reconciliation of interests.

We support the concept that conflicts in Africa should be solved by peaceful means and we are ready to contribute to this end as far as we are able to do so and as far as our African partners wish us to do so.

This is why we are in favour of upholding the very important principle laid down in the Charter of the Organisation of African Unity: Respect for the inviolability of existing frontiers. We want to help the African peoples along the road towards nation-building—thorny as it may sometimes be. I give emphasis to this aspect particularly here in Nigeria: In one of the biggest countries of Africa whose people, under resolute leadership, has overcome the consequences of an almost fatal civil war and is now about to return to parliamentary democracy. Let me express my respect and my best wishes for good luck and success in this great national effort. How lively democracy is, we have experienced in reading your free press. Criticism is the salt of democracy, I am not very stingy with it myself. I am willing to grant reciprocity.

It is with a sense of deep concern that we in Europe follow the escalation of tension in a number of crisis areas in the continent of Africa: at the Horn of Africa, in Central Africa and above all developments in Southern Africa which will be decisive for future relations between Europe and Africa. Tonight at the official dinner offered by the President I will have the opportunity to speak in somewhat greater detail about these problems. Here I would like to confine myself to the following remarks:

Wars between African countries can be of no advantage to us in Europe, on the contrary: They weaken our partners and they prevent them from fulfilling together the difficult task of development. And what is even worse: Tensions in Africa

create a political and security vacuum and promote trends which inevitably attract and activate extra-African forces.

This, however, brings on the danger that extra-African-power interest are being asserted on African soil: When two elephants fight the grass suffers. In other words, the foundation for the growth of African national economies could be destroyed. How could a Europe, how could a country like mine where one out of three workers is engaged in the production of goods for foreign markets because we have no resources apart from coal and largely depend on exports—how could we be interested in such a development? By the way: I would like to stress that the volume of our trade with Nigeria is much larger than that one with South Africa.

On behalf of my government and on behalf of my country I can assure you that we shall support no action which aims at creating or extending armed conflicts in Africa. Furthermore there is hardly any other industrialized country which pursues as restrictive an arms export policy as the Federal Republic of Germany, our constitution does not permit us to use armed forces or armaments in areas outside the scope of the alliance which we have joined for the purpose of our defence.

There have been allegations against us about military and nuclear cooperation with South Africa. I hereby declare emphatically, that these allegations are untrue. We have submitted the necessary documentation to OAU and to African governments to prove this. We ask you not to give more credence to people engaged in professional disinformation than to responsible governments with which we cooperate in a wide field of mutual interests.

In this context I was surprised to see this morning in one of the Lagos newspapers the question put to me, whether the Federal Republic of Germany has diplomatic relations with Rhodesia. It would have been easy to find out with our Embassy that we have condemned the Smith-regime from its inception as illegal.

The peoples and states of Africa could never regard the Federal Republic of Germany as an enemy, they should always see in our country a partner interested in co-operation between equals, that we desire is indivisible detente throughout the world.

12.2 World Economic Situation and North–South Dialogue

The subject of my speech to you is “The international economic order and the North–South Dialogue”. It defines an interrelationship which is at the center of many problems facing the industrialized as well as the developing countries. No wonder it will figure prominently on the agenda of the two summit meetings which will take place shortly in my country: on July 6/7 the Heads of State and Government of the European Community will meet in Bremen; on July 16/17 the seven major industrial countries of the West will consult in Bonn.

When we analyse the causes and effects of the world economic recession from which we all are still suffering, then we see that North and South are sitting in one boat: inflation in the industrial countries, sudden rise in energy prices, and abrupt

fluctuations in other raw material prices, growing unemployment, slackening of economic growth in North and South. The main subject of the two forthcoming summits will be the following three questions: How to stimulate economic growth; how to promote monetary stability; and how to reduce unemployment.

These questions cannot be answered merely by looking to the industrialized part of the world. They are as well the situation and policies concerning the developing countries. Much depends on trends of demand of the developing countries, on their capacity to import from industrialize countries. Much depends on their cooperative attitude, on their price policies as regards their own products or their investments.

On the other hand, reduced economic growth in the industrialized part of the world also has an impact on the economic situation of the developing countries, who are particularly dependent on a vigorous expansion of their exports.

Let me give you an example to illustrate this: At the end of 1976, our external trade with the non-oil-producing non-European developing countries was more or less balanced. But in the following year, 1977, Germany's trade balance with these countries was showing a deficit of approximately 3 billion Deutschmarks. Hence, it was possible for the developing countries to improve their foreign trade position and thereby strengthen their own ability to absorb imports. This in turn benefits the industrial countries, which depend on exports.

This illustrates our countries' mutual dependence. Growth in the industrialized countries constitutes a major precondition for the development of the Third World. On the other hand the developing countries themselves exercise an ever increasing influence on this process.

These new dependencies make isolated and unilateral action by individual states, however large, increasingly questionable and in the last analysis often ineffective as well.

What we rather need is co-ordinated action paying due regard both to the requirements of partnership and to national and common interests. We need joint economic thinking and planning.

12.3 Reconciliation of Interest Between North and South

To achieve a reconciliation of interests between North and South is one of the most urgent tasks we face today in international affairs and in the world economy. The Federal Republic of Germany is prepared to contribute its share to this end. We know that this means sacrifices for the citizens of my country: bigger contributions to the developing countries through giving their products wider access to the German market, through increasing financial cooperation, through exporting private capital and through direct investment.

The Federal Republic of Germany's financial assistance to the developing countries has reached a remarkable volume. Let me quote some facts:

1. The total flow of resources from the Federal Republic of Germany to developing countries accounts for 1.12 % of our GNP, which is more than the 1 % target set by the United Nations.
2. The Federal Republic of Germany's share in the European Community's development assistance expenditure amounts to 25.9 %. We meet some 11 % of the World Bank's expenditure in the same field which makes us the second largest donor of capital after the United States.
3. Our development budget now equals 10 % of our defence budget. If other industrialized countries, e.g. the Soviet Union, followed this example a good many developing countries would be better off today.
4. Last year, the Federal Republic of Germany provided more than 4,000 million Deutschmarks in the way of official development assistance. This is more than 2 ½ times the amount of what all communist countries in Eastern Europa, taken together including the Soviet Union, made available. We have repeatedly appealed to our neighbours in the East to do more for economic development and not to concentrate on arms transfers to the Third World. No industrialized country must be allowed to evade its responsibility in contributing its share to the reconciliation of interests between North and South.
5. We lead the field in terms of our per capita imports from developing countries.

Apart from official aid the transfer of private capital is of vital importance to the more advanced developing countries in particular. It not only provides capita but makes managerial experience and technology available as well.

Both sides must play their part. The industrialized countries must give the developing countries easier access to their capital markets. The developing countries, however, will attract private investment only if they provide sufficient legal protection and in this way create a climate of confidence.

Let me add a general word to the importance of confidence and mutual respect in building partnership: Partnership is a two-way-proposition, both sides must give and take. Criticism should be fair and objective and not based on disinformation.

There is a small number of people in my country which is entirely unrepresentative and miniscule who engage in the production of propaganda. We ask you not to give them any credit.

Economic interdependence could be no more patently clear than in the field of energy. Although this fact has been widely accepted in international discussion governments have not yet adopted policies which reflect the seriousness of the problem.

I had very much hoped that the Conference on International Economic Cooperation which was held in Paris last year could initiate a dialogue between producers and consumers. Unfortunately this conference was terminated without tangible results in the energy field.

Consequently, we must try so seek solutions acting nationally and from within the groups to which we belong. In so doing we must take into consideration our national interest as well as the international solidarity which we owe each other.

Speaking before an audience of a country which is a major producer of energy and one of the most important suppliers of energy to the world I should like to stress that my country has, at no time, denied the oil producing countries the right to control and utilize their sovereignty and national interest.

At the same time I have always advocated that the continuous development of economic and political interdependence among the nations should outrule the use of resources, and of oil in particular, as a weapon against countries to solve political conflicts, even where these countries are not involved.

I would like to express my respect for Nigeria's sense of responsibility as an oil-producing country shown by the Nigerian Government in the deliberation and decisions of OPEC.

We appreciate the constructive attitude of Nigeria as regards OPEC's price policies, which must not lose sight, of what the world economy can bear, we pay tribute to Nigeria's wisdom and understanding of the current world economy problems.

Having said this I hasten to add that I see clear responsibilities of the consuming industrialized countries: My country has introduced firm policies concerning energy conservation, research and development of advanced energy technologies, and the use of coal and nuclear power as the two major alternative sources of energy.

My government is strongly committed to play a role in bringing about adequate energy policies within the European Community and within the group, of the industrialized countries, including the United States. We are dedicated to giving an adequate response to one of the most challenging tasks of our time—in our interest, in the interest of the producing countries, in the interest of those developing countries which are importers of oil and last but not least in the interest of the generations that follow us.

The dialogue on energy is at present not being continued the way I would like to see it continue, yet it seems to me that useful work is being done to further develop the international cooperation relating to other primary resources and commodities.

The position of my country has not always been properly interpreted. As a matter of fact, we have been regarded as being reluctant to accept a new order relating to the production of commodities.

The truth is that the Federal Republic of Germany is an active and reliable partner of each International Commodity Agreement which exists. My country is actively participating in the discussions and negotiations on additional commodity agreements which are being conducted in Geneva in the framework of UNCTAD.

We have a clear perception of the problems that many developing countries face by being exposed to the fluctuations of the international market. This often yields less than expected, be it because of decrease in demand due to the slow growth in the consumer countries, be it because of erratic and damaging monetary movements.

We stand ready to accept adequate protection against destabilisation of earnings. Proposals to this end have again and again been tabled in UNCTAD and other international fora. We have been ardent supporters of the Lomé agreement

which provides for the stability of earnings for a number of commodities and I propose to give serious thought to expanding the Lomé principles to more commodities and to more countries in order to better accommodate the needs of the developing countries. At the same time we should bear in mind two things:

First I oppose any schemes which would in the first place be beneficial to the rich producer countries.

We must not forget that about 50 % of raw materials are being produced in the United States, the Soviet Union, Canada, Australia and other industrialized countries.

For instance: A commodity agreement for cotton would help Sudan, Egypt and other African countries, but at the same time larger benefits would go to Soviet Union and the United States.

Commodity agreements for iron ore and other raw material would lead to similar results. These aspects should be taken into consideration in defining the common fund.

This new institution should form a system for pooling the funds which are at the disposal of the Commodity Agreements.

The other point we must not forget is that the most important contribution to the well-being of the developing countries will not be made in the commodity field. Their future lies in their industrialization and their integration into the world economy, which is to be brought about by giving them as free access as possible to the markets of the industrialized countries.

This is why my country has become the largest per capita market for industrial goods from the Third World. This is one fundamental consideration for our struggle against protectionism. The industrialized countries must not seek the solution of their structural problems at the expense of the Third World.

Ladies and gentlemen, global economic interdependence and the achievement of a balance of interest between North and South call for imagination and action. Interdependence is and must be understood as a reciprocal relationship:

The suppliers of industrial goods and the suppliers of commodities must not seek domination or tutelage over one another.

In spite of their mutual dependence, a community of equal partners can and must be established between North and South without either side dominating the other. Equal treatment economically and equal rights politically—these are the goals each country should strive to attain for itself but at the same time acknowledge the right of others to do the same.

The chief objective must be to maintain a world economic system that is open to trade and investment, and to improve and strengthen that system. The developing countries must be integrated into this open, flexible and well-functioning economic system. This is only possible on the basis of mutual trust and partnership between North and South.

We must be aware that progress in the developing countries is primarily dependent on their own endeavours. However, the industrial countries are also called upon to support the developing countries with all the means at their disposal in accomplishing this task to which the latter will have to devote all their energy.

The existing structures need to be further developed and improved. This will involve hardships for us but it will be all the more easier for us to accept and defend them at home if we can count on our partners' willingness to co-operate.

As far as the African continent is concerned, I feel we have a good basis for this in my country, like Germans are trying to understand African plurality in the same way that we have learned to comprehend the individual characteristics of our many European neighbours. Our own federal structure has helped improve our understanding of the diversity of peoples, tribes and groups.

Numerous Germans—scholars, doctors and also men of the church—have succumbed to the fascination of Africa. Today in the age of worldwide tourism many citizens of my country can visit the Federal Republic of Nigeria.

Whenever they come here they will be met with the same kind of cordiality that has been extended to us in these days by our Nigerian hosts.

We have enjoyed the talks we had in Bonn with Brigadier Yar Adua and the Commissioner for External Affairs, Brig. Garba, and the Commissioner for Finance, Mayor General Olu Leye. We are profiting now greatly from the talks with his Excellency, Lieutenant General Obasanjo and the other members of the Nigerian Government.

My delegation comprises prominent representatives from German trade unions, business and industry and cultural groups of my country.

Irrespective of whether such contacts take place between people of our two countries on a personal basis or in official exchanges between those who bear political responsibility, it will always be a basic consensus of mutual respect which determines the spirit and the substance of our co-operation.

If we are guided by this basis consensus we will, in the end, be able to resolve the practical problems so that we can achieve our common goals:

- reducing the gap between the wealthy and the disadvantaged countries,
- securing the political independence of young states of the Third World,
- establishing genuine partnership between North and South in order to ensure lasting peace in Africa and throughout the world.

Peace is the indispensable condition for the existence of all of us. Let us together strive to attain the objective of a just and peaceful world.

Chapter 13

Interview of Jonathan Carr of Financial Times with Chancellor Helmut Schmidt (11 July 1978)

This interview with Jonathan Carr (Financial Times, 11 July 1978) was published several days after the EC summit in Bremen (6–7 July 1978) and a few days prior to the summit of Western industrial countries (G-7) in Bonn. By chance—the Federal Republic had taken up the EC presidency on 1 July 1978—both summit conferences took place in the Federal Republic. But this also demonstrated the importance the government led by Helmut Schmidt had gained in central questions of international economic and currency cooperation. Here and elsewhere Schmidt countered the misunderstanding, widespread among the public, that the G-7 is a kind of a gigantic cabinet meeting of the participating governments that will take concrete decisions. The goal is rather a responsible exchange of opinions and the emergence of a consensus concerning a global economic idea that will supplement national policies. A greater degree of commitment was to be expected from the outcomes of the EC summit in Bremen. Here the other governments, with the exception of Great Britain, had agreed in principle to the concept of a European Currency System developed by Schmidt and Giscard d’Estaing. At the same time, Schmidt argued that the European currency project would help to stabilize not only the currency of the participating countries but also the US dollar.

Question: It seems to be shaping up for some kind of a package deal at the Bonn economic summit conference with five parts: energy, currency, North–South issues, economic growth and trade protectionism. And success seems to imply both economic reason and political room for maneuver in all the states taking part. How do you rate the prospects for this meeting?

Answer: I agree that success does presuppose economic reason. It would also need the will for compromise. The will for compromise is useless if nobody has some room for give and take. I don’t know whether this economic summit can meet all the expectations which so far have been nurtured by some newspapers in all the participating countries. Even at the time of the summit meetings of Rambouillet, Puerto Rico and London some people in the international press were stating that they missed concrete decisions. I think this is a misunderstanding. Meetings of that kind are not understood as combined cabinet meetings of seven states, including bodies for parliamentary decision. Meetings of this kind serve the responsible exchange of opinions and they serve common orientation. At each

previous economic summit we have achieved some progress in developing a world economic concept in which national policies complement each other. By so doing we have avoided a far reaching world economic crisis like that of the early 1930s which might very well have occurred in the middle of the 1970s. We are very lucky to have avoided this and have been very successful. This regards not only the world economic summits which we have held so far but it is also true of the EEC. If the EEC had not existed in these very difficult times I think any single member country in Europe would have got in much deeper trouble. This is not to underrate the trouble we are indeed facing. I think there really are prospects that this combination of economic reason and readiness for compromise will bring us some steps further, as indeed we need. Your use of the term package deal is certainly correct insofar as from the political point of view alone, no one can be ready to make a concession in one field as long as he does not receive in another field something he urgently needs.

Question: President Carter has recently had another setback with his energy program in Congress. It seems, the energy question in the United States is the key to many other questions: the US trade deficit, the prospects for growth in Europe and so on. Must a contribution on the energy side come from this world economic summit? Must President Carter give a pledge that if by a certain date action has not been taken by Congress then he will take it himself?

Answer: Of course, nobody in the world must anything, particularly not the President of United States. But in general sense I think that the underlying tendency of your question has to be answered positively. The enormous increase in American imports of crude oil up to 45 billion Dollars in 1977 has led to an enormous deficit in the American trade and payment balances. This, in turn, has weakened the Dollar and thus contributes to fuel domestic inflation in the US.

In my view this is the most important single source of the upheaval in the worldwide network of balances of trade and payments and it should be corrected in that context, of course, the reduction of America energy imports has a very important role to play.

It would be very difficult to conceive a package deal in the sense of a worldwide economic set of complementary economic policies if the United States not make serious efforts to reduce its deficit.

Question: Do you feel that the United States is sufficiently aware of the leadership role it is called upon to play in the world?

Answer: My answer is positive as regards the leading persons in the United States the President himself, the chairman of the Federal Reserve Board, the trade negotiator Bob Strauss and others. But this is certainly not wholly the case with respect to American parliamentary decision-making. Just look how the energy bill has been dealt with so far.

Question: Might that not in itself imply that the President was going about things in the wrong way?

Answer: I think the President, like some other participating heads of state or government, might wish to gain from a summit meeting agreement some additional support, which might be needed vis-a-vis parts of public opinion and parts of

national parliament. This would certainly not only apply to President Carter and the United States.

Question: How are your relations with Carter?

Answer: Very good. But beyond that it is, and has been, of course, not so important whether the personal relations between leaders of allied nations are good or very good or not so good. It is more important, whether the leaders are able to solve disputes which from time to time are bound to arise even between allied countries—because, of course, God did not create the world so that the interests of all countries were identical from the start.

What really counts is the will and ability of the leaders to reach economically sound and just compromises. This has always been possible between the United States and the West Europeans in general and between the United States and Germany in particular.

I see no reason to think that this is not true now and will not also be true in future. Quite the contrary. Despite some disputes in 77 between the US administration and my government we have now reached a much greater meeting of mind than people expected us to do last year.

Question: One could speak of a very considerable improvement since this time last year?

Answer: I think the considerable improvement has occurred since the London summit meeting in May 77. That is just one more proof of the value of a personal meeting.

Question: Was the dollar weakness the main stimulus behind your idea for a wider zone of currency stability in Europe? And does the fear of the rise of the Deutschmark as a second world reserve currency also lie behind this idea of doing something in the European sphere?

Answer: No, not really. The origin of the idea creating a wider zone of currency stability in Europe is the experience—and I am not the only one in Europe—lack of such stability has been a main factor in the structural upheaval of the world economy since the early 1970s. I think both: domestic monetary stability and international currency stability are two absolutely necessary conditions for continuous growth. Now I am fully aware that you cannot go back to fixed par values internationally just with the snap of your fingers. You have to do it step by step. Obviously a possible step can be taken within the European community. I would like to add that a European or an EEC-wide system of currency stability would also serve the stability of the dollar. I have no doubt about it. The heavier the weight of a basket of currencies vis-a-vis the dollar, the less rewarding does it become to speculate against the dollar. A couple of weeks I said I hope before the end of my life to see the world go back to fixed parities. This really is what I believe, fully realizing that at present this is impossible. Let us bring it about step by step.

Question: Do you feel the American administration also sees this as a move that will help the dollar or do you think there has been any fear that it might be directed against the dollar?

Answer: There were at first a few people who might have had such fears. In the meantime there has very clearly been a swing in Washington in favour of such an attempt from the Europeans.

Question: I can't imagine a larger zone of currency stability involving German reserves and more intervention which didn't imply a greater danger for German money supply and inflation.

Answer: Well in principle you are right. But Germany has long since been making available part of its currency reserves in the cause of European monetary stability. In addition the intervention policy of the Bundesbank to even out erratic currency fluctuations has from time to time necessarily conflicted with the Banks money supply targets. Germany has been and must be willing to take some risks if we really want to serve European and world stability. It is not Germany alone who would have to take some risks, others would have to contribute some of their currency reserves as well. It might be foreign currency, it might be gold. Also necessary is that every participant makes available some of its national currency. And this has been and will be the real potential source of additional inflation, not to pool dollars. We will have to be careful about that.

Question: The existence of the snake already brings for its members economic benefit as well as purely monetary ones. Would not this new larger European Monetary System serve in the medium term to increase an economic gap between those countries which are members of it and the potentially new members of the EEC?

Answer: You are now talking of Portugal, Greece, Spain. No, I don't think there would be any additional risk for them. The question might more legitimately be asked with respect to those members of EEC who may not in the first stage see fit to join the new system full scale. This is a question which they have to ponder. It might lead them to the conclusion that they should enter the monetary system from the beginning with full rights and duties.

Question: The Development Aid Ministry of Germany has recently talked with more enthusiasm about—greater transfer of resources to the developing world. Where do you feel West Germany's major aid effort should be concentrated? Would it not be better to concentrate resources in Southern Europe?

Answer: Well, the European Community as a whole has already taken quite a variety of measures in favour of Southern parts of Europe. These are being continued. At the same time all the member countries of the Community plus the Community as an entity have made enormous efforts towards developing countries both of official aid and of private capital transfer. All these efforts for Southern Europe and developing countries of the Third World are to be continued. It would be absolutely misleading to impose a scale of priorities between these two tasks.

Question: You would not see any necessary connection between these aid efforts and the wider European currency zone?

Answer: I don't see a necessary connection between development aid as such and the monetary system. But I would not rule out that the monetary system would also involve some existing European institutions, for instance the European Investment Bank which is an institution for transfer of resources within the

Community. It might in some way be connected with the European monetary system. You will for instance be tempted to draw some parallels between the IMF and the World Bank in Washington.

Question: How much room for maneuver do you feel yourself to possess to promise at the summit some further efforts to achieve more growth? And is the summit in fact pushing you into doing something for the German economy which you feel you should not do?

Answer: I have already spoken of the need of for compromise. This refers to everybody, not just Germany. Secondly I would like to stress that Germany has contributed enormously to the growth of other peoples' exports by letting the German currency appreciate at a speed which nobody has ever conceived before. This enabled other countries to step up their exports to Germany much faster than our GNP has been growing in real terms. We have let this happen although it has created some additional unemployment not only in our own export oriented industries but even in our industries which are supplying the domestic market. These are losing ground at home because of cheaper imports from other countries whose currencies have evaluated vis-a-vis the D-Mark. Thirdly I would like to stress that I am faced with two limitations with regard to that so-called creation of additional demand or whatever the phrases are. One is the German constitution which in article 115 limits public borrowing for the budget in all but exceptional circumstances to the amount earmarked for investment. The second restriction is market to yield at stable interest rates the amount of credit which our foreign partners urge on us through additional deficit spending. The public sector deficit in Germany already amounts to about 4 1/2 % of GNP which is an enormous amount, only equalled at present by Great Britain and nobody else, I believe. If we took no account of the limitations of the capital market, we would push up the rate of interest in Germany that in turn would be detrimental to the efforts of the United States and others to stabilize the exchange rates of their currencies by maintaining a sufficient differential in interest rates. Pushing up interest rates in Germany would not help domestic investment either. Well, having said all this, last remark but one: Never in some 4 years of holding my present office have I felt myself to be cornered internationally and I don't feel cornered today. I feel, I have all the room for maneuver I need. Last remark: I once again stress the need for compromise on the part of all seven participants. Full stop, Sir.

Question: European politicians, not least the European Council, talk about the need to increase growth and cut unemployment. Is it not true that Western Europe has to some extent exported part of its own possible growth to the developing world and now has no real strategy to win it back?

Answer: I think there is some truth in what you say. And it is not so much a decision which governments can take in the more or less free enterprise economies which we have in Britain, in France, in Germany. We don't have central state planning. We have to rely on individual decisions by businessmen. They have to try and find out which are the markets of the future and which products can be sold for the next 10 or 20 years. They have to establish production capacity which will not be undercut by competition from quickly developing countries with lower

costs and prices. Europe has to understand that the process of industrializing the developing world necessarily means that we cannot hope to sell in the future as much of those goods which we have been producing on a large scale for 10 or 20 years. Germany in addition is suffering from the fact that for two decades its industry has been geared to making a big part of its profits and employment in exports. This was because the German currency was undervalued. Nowadays it tends to be overvalued to the same extent. We must understand that the same old type of conventional ships and conventional steel will probably not sell in the same measure as they did before the world's economic crisis started in '73. We have to look for new products, new inventions, new goods, new capacity and above all new markets.

Question: I think the British do what the Germans try to do. But there is the problem of timing—what to do with those employed in the old industries?

Answer: Certainly, the same problem we have.

Question: Is that the key in the protectionism debate?

Answer: Well, if only this was the key of the protectionist debate it would be a debate in which you could fight with reason.

Question: And you don't think you can?

Answer: I think in many fields the trend to protectionism stems from an inclination not to meet the challenge of necessary change but just to maintain old structures, which in the long run will not serve the purpose of a return to full employment. This trend would also destroy the framework of the world economy.

Question: Do you feel that there is any longer a direct connection between economic growth and the kind of unemployment that you have in Germany and we have in Western Europe?

Answer: At least a considerable part of unemployment has to do with the subject we have just dealt with. It is already clear from experience that we have no chance in future of building the same big amount of tonnage of conventional ships against competition not only in Japan but to a growing extent in South Korea and other places, working at lower wages and therefore able to compete with lower prices. We must therefore build different types of ships and steel which at present and in the years to come cannot so easily be produced by developing countries. We have to keep up with technical progress; only if you do this can you hope for more success in taking up the unemployed.

Question: A sensible national economic development programme is now basically one of education, training research?

Answer: Right, development of research, education and professional training is indeed a major aim of our economic policy. We have spent considerable sums on promoting all three. Private industry made a positive response to our call for more and better apprentice training. What we need as well is more mobility.

Question: As the Americans have and the Europeans have not.

Answer: Yes, and the Europeans have to be taught that this is necessary. We have to give some incentives in order to make them accept this.

Question: Does not the building up of the kind of social security system which you have in this country actually hinder just that mobility?

Answer: It could hinder it if you make the system too rigid. And, of course, nobody should want to create a social security system cushioning everybody—even against the risk of one's own unwillingness to take personal decision.

Question: You sometimes seem to be the only cabinet member not voicing sharp criticism of some aspect of British policy. How would you describe current German-British relations and how do you see them developing in the EEC context?

Answer: The virtue, which you ascribe to me—if it does exist—then I share it with my friend Jim Callaghan. I have never heard from Callaghan's mouth public criticism of my country whereas I have heard quite a few criticisms from other political figures in your country. I don't think that political leaders should publicly criticize each other. In particular one should not make the domestic situation for a partner more difficult than it already is in most countries. As regards British-German relations I think they are good.

Let me come back to my answer which I gave you connection with the very similar question about German-American relations. It is the same thing here. There is a strong feeling of being allied to each other. There is a strong feeling of being dependent on each other. Nevertheless some interests from time to time are by nature not identical. For instance take fishery or the green pound within the common agricultural policy. There are many other instances from time to time. This is normal. I mean within a group of states, in which you never heard of such differences of interest, of disputes among them—such a group would be one of dictatorship. In a democratic world in which opinions can be freely voiced it is absolutely normal to hear of differences of opinion or of interest. It would be alarming if you did not. It is abnormal on the other hand that some people from time to time try to play on such issues and blow them up in order to fulfill the old but bad rule that bad news are good news.

Question: How far can you maintain what seem to be splendid personal relations with Jim Callaghan? It very often seems to be against the grain of a set of policies which are vital to both sides.

Answer: I don't see that basic policies are conflicting. But I do see some tendency in some parts of British society of today, to hold the European Community responsible for some economic deficiencies in the United Kingdom. And among the Europeans it is rather easy to pick out that member which apparently, but not necessarily, seems to be a little bit more lucky at present with its figures of unemployment, inflation and so on, than others. But I think this attitude will also disappear.

Chapter 14

World Business Conference Finance and Trade in the 1980s: A Financial Times Conference Frankfurt, 14 February 1979

This speech by Schmidt was delivered in Frankfurt at the “World Business Conference” organized by the Financial Times on 14 February 1979 in a changed political and economic context. Both the Camp David peace accord of autumn 1978 between Egypt and Israel, negotiated with the help of President Carter, and the ousting of the regime of the Shah of Iran by the followers of Ayatollah Khomeini triggered a second wave of increases in oil prices. Questions of energy saving and of a structural change in industry through scientific and technical innovation moved to the forefront, as did the closer integration of developing countries into the world economy. Schmidt was therefore free with his criticism of the partially failed agricultural policy of the EC as well as that of other large industrialized countries such as the United States and the Soviet Union. His praise for the German trade unions, represented at the conference by a single delegate, had a certain topical resonance. Given the shrinking possibilities for redistributive state policies he relied even more on the rational behaviour of the trade unions in their wage policies. He also mentioned other veto players such as the Bundesrat (upper house) and the German Federal Bank in order to successfully dampen international expectations directed at the federal government in Bonn.

Mr. Chairman, Ladies and Gentlemen,

Thank your very much, Mr. Chairman, for these kind, even exaggerating words of introduction.

I am very happy to accept the invitation of the *Financial Times* to speak before this Frankfurt World Business Conference. Meetings like this one are not only useful in general but especially so when we can discuss matters without having to take decisions or vote on resolutions.

This kind of discussion is particularly productive because no one has to articulate his views with an eye on the fact that a communique must be produced at the end. On the other hand, naturally a conference of experts like yourselves has one major disadvantage if compared to other less exalted meetings. Here of course no one can afford to encourage illusions just because he knows they are popular. If he tried, he'd know only too well that experts like yourselves would be bound to contradict him on the spot.

I hope you will not take it amiss if I make a short remark about the official speakers at your conference. I've seen your President, and of course I have to be careful how I put this in order to avoid unnecessary criticism.

But when the German Chancellor wants to gain something from discussions like this, and naturally he does wish to do so, then he likes to see some leading trade unionists invited to take part as well. I acknowledge that one trade unionist is here, and I pay my due respects to him. I am simply saying this to make clear to you that my government looks towards the trade unions as an extremely important discussion partner when we want to have broader views on which to base our own judgement about future economic developments.

After having seen your programme I think there is no point in by simply addressing myself directly to individual topics dealt with by others. I don't think it was the idea of the *Financial Times* to have me make a detailed contribution to any particular part of your discussion or your topics.

This evening I would much prefer to make five general remarks, as the political leader of a major industrial country, a country which is not only embedded in the world economy but which has also clearly assumed its duties within the world economy. My five remarks will deal *first* with the necessity of restructuring our productive capacities or industrial capacities. *Secondly* with the integration of developing countries into the world economy. *Thirdly* with international economic decision-making. The *fourth* point will be on trade unions and their positive contribution within this country. And the *fifth* point will just be a footnote about economic management by discussion.

Turning to the first point I would like to say that today we no longer have to face the kind of world recession which we seemed to see looming before us in the winter of 73/74 or during 1974. I want to make that point quite clear because I personally am constantly under the impression from international discussions that people are far too much concerned simply with GNP growth rates, both their own and those of their neighbours and partners, and much too little with the need for structural change. This is no longer simply a recession; it has become something different in the meantime. Of course, structural change has always taken place and it will continue to take place.

But over the last couple of years there has been a growing need for speedy change, brought on in particular by rising prices for all kinds of energy, a total upheaval in the international network of balances of payments, huge surpluses, huge deficits; inflation rates hitherto unknown in peace time, differing in degree from country to country; changes in the terms of trade; changes in the terms of payments; a constant process of technological advancement a chain of technological events of revolutionary force; the newly discovered need to protect the environment; exchange rate turbulences, not to forget; economic progress in newly industrializing countries, which we still refer to as developing countries although they are nowadays able to make quite good steel and build quite good ships and, what is more important, cheaper than we can ourselves.

All of these factors, and quite a few more, will remain a constant challenge to us in the years to come. If we do not meet our obligations in this respect we can

neither expect sufficient growth in the 1980s nor can we hope to get back to full employment or anything close to it, nor can we prevent protectionism from spreading worldwide. And we have got to bring these matters more clearly and urgently before more people in business, in banking, in trade unions—and the trade unions are going protectionist virtually all over the world—and also in parliamentary bodies and in politics. We have to make it clear to all these people that we live in an economic environment in which international interdependence has become our fate, even if they have not yet acknowledged this fate, including the United States economy. I am deeply concerned to see that the battle against protectionism has lost the kind of vigour which it used to have in the 1950s and the 1960s, and which then marked major progress compared to the situation between the two wars, in the 1920s or the 1930s. Of course, all of us are tempted to resort to protectionist measures to avoid the need for structural change, to avoid the need for change towards new products, new production methods, new markets, possibly even new types of financing, whatever it may be.

The temptation is all the greater because structural change of course often means facing up to tremendous difficulties, to painful transformations, especially in the labour market, and to employment problems, at least for a while, sometimes much longer. All the same, those who hold responsibility in governments and parliaments must resist this temptation. And I see a few gentlemen nodding their heads. I urge you all not to lead your governments and parliaments into such a temptation because it is mostly not the governments and not the parliamentarians but the pressure groups from industry or from trade unions who try to lead us into protectionism. It is no good simply looking on. A fortnight ago I heard a speech by a German banker who said that inaction was the most expensive type of decision-making.

I think he is quite right. I think this is true not only for private investment decisions but also for those affecting structural change and the whole economy.

On the other hand it is unrealistic to think that adequate and sufficient structural change will go ahead simply according to the rules of the market and wholly without some help from the legislative branch or the executive, from the state in general. Quite often the state is asked to help bring this change about. It seems to me that this request is perfectly legitimate. But it is important to make sure that such aid, if it is granted, does not lead to inaction on the part of private enterprise. That would defeat the whole objective.

In our country we have recently taken decisions to help our shipbuilding industry. I cite this as just one example to show that we are holding fast to the aforementioned principle. The aid we are providing for our shipyards is to be reduced year by year and we have set a time limit. Within that time limit it is up to the enterprises themselves, their executive boards and their supervisory boards, including the trade union members on their supervisory boards—and not up to the state—to take the necessary decisions for change in their production lines, for finding new markets, and to carry out those decisions. That is a task for the enterprises and not for the state.

One sees some countries in the world where the state has tried to do this job instead of the enterprises, but I do not see any state which has really been successful in this attempt. I am therefore strongly convinced by experience not by ideology, that this is a task for enterprises and not for government.

I now turn to my second point. It is quite clear that in the 1980s, even more than in the 1970s, we will face demands from the developing countries for their fair share in world trade and in new markets. We have long felt the pressure of competition from several of them in specific sectors, such as steel, shipbuilding, textiles, cameras, and so on. Other sectors will inevitably follow. And this means that we have to face a choice between either producing with our old productive capacities at lower costs, which implies that we would have to lower the standard of living of our workforces. They would not like it; they would not accept it. But if we do not take this line we will have to manufacture new products which cannot yet be produced in Hong Kong, in Singapore, or elsewhere. And these are just a few examples; I could give many more. We will have to open up our markets still more to these new competitors.

We have taught them how to make steel, we have delivered the steel mills, and we have delivered the technology for shipbuilding, now they are using it. And I think we have not delivered it to them in order to fill their museums but in order to create jobs and to provide an honest and decent living for their people. Now we have to bear the consequences and be willing to undergo the structural changes in our own countries and open up our own markets for their products, which are cheaper than ours and will continue to be so. And we shall have to do so even if it hurts, and hurt it will in many places.

I think only in this way can we integrate the developing countries into the world economy. By doing this we will achieve more in the long run than by increasing official development assistance by a few billion dollars. Or by setting up a big raw material fund which, in the end, will not benefit the poorest and the least developed countries. I shall come back to this in a second. Such a fund is more likely to involve a worldwide extension of organized markets, similar, Mr. Ortoli, to that of the Common Agricultural Market, and it is likely to benefit mostly countries which are already wealthy rather than lead to an effective development of the economies of the majority of the poorest or least developed countries, or the most seriously affected ones.

Although many advantages have been claimed for the EEC agricultural policy, I cannot recall having heard the promotion of efficient international division of labour mentioned as one of them. The opposite is more likely to be true.

I as well as my government have for years been supporting a system to stabilize the export *earnings*—not the prices—the export earnings of developing countries. I am not talking of Canada, of Australia, of other wheat producers; I am not talking of the Soviet Union as a cotton producer, or the United States as a cotton producer; I am talking of stabilizing the export earnings of raw material-exporting developing countries. I think that this system might be established along the lines of the Lomé Convention, just as an example which has been working for a number of years in practice; I think it works well; it needs a little more funding. It is also

widely acknowledged by Third World leaders. On the other hand I feel that raw material funds could tend to lead to the preservation of outdated production methods, and, by the way, run the risk of increased substitution. Nevertheless, in order to avoid any misunderstanding, my government is willing to go along with the plans to establish a so-called Common Fund. But I would like to stress that the developing countries as well have to press ahead with structural change in their own economies.

I think it is ridiculous that the most industrialized countries should produce agricultural surpluses and that the developing countries should not be in a position to feed their own people. That is a grave mistake of past development policies.

I would like to leave this point and come to another one which I think must be made particularly clear to public opinion and to published opinion. Although we now face worldwide interrelated economic problems, we neither have appropriate international means of dealing with them nor do we have wholly suitable international decision-making procedures, even in those bodies which do exist on the basis of a constitutional charter. I am not complaining about this. It is just a fact of life. I am simply pointing this out because I think we are all well advised, whatever our field of responsibility, to make one thing absolutely clear, namely that finance and trade in the 1980s is not a matter which can or even should be primarily decided by individual governments sitting around their cabinet tables. Nor should they try to do so there, because failure would be inevitable.

The fact is, all of us here are aware of the exaggerated expectations about what governments are capable of doing or carrying through. We all know that governments have only relatively modest means of influencing economic development; at least we politicians know this, the economic professors may question this from time to time, always tempting us to use new instruments.

And when we follow their advice, it takes only 2 or 3 years and they find good reasons for writing articles in which they criticize what we have done. In other words, there is, worldwide, a gap between the wishful thinking of the general public—including industry, including banking, including trade unions, including parliaments—and harsh reality, which only a minority has the will to live up to.

To give you one concrete example. The heads of state and government of the seven major Western industrial nations have held four so-called economic summit conferences in recent years. First in Rambouillet near Paris, then in Puerto Rico, in London, and in our little capital, and in 1979 there will be a fifth meeting in Tokyo. On the first three occasions we had to concentrate on working out common aims, common goals. By doing so we prevented the world from falling back into the beggar-my-neighbour attitudes of the 1930s, and this is quite an achievement. It was by no means a matter of course that we would be able to prevent this from happening a second time.

The last meeting for the first time went one step further. Not only did we set common goals but we also did make concrete commitments which, by and large, have already passed through national parliaments. Again I would argue that this progress should not be underrated. On the other hand, as head of government of a country with a democratic constitution, a federalist constitution, a fully

autonomous wage bargaining process, a fully autonomous central bank, and other fully autonomous authorities—the central bankers are laughing. They feel absolutely safe, and they should feel safe.

But I wonder how many countries there are with such a variety of autonomous central decision-making bodies and authorities. Very prudently we have put our central bank physically into another place than the central government.

We have put the supreme court into yet another city. We have put the authority which is to supervise the banks into a city where no major bank is present.

We have learned our democratic, our federalistic lessons rather well. It makes me sometimes wonder how all this is still functioning.

But what I mean is I am always concerned, given all these difficulties and the many autonomous decision-making bodies or authorities, about the extravagantly high level of expectations of the general public, including some among you, gentlemen, when governments decide to meet for another summit. Afterwards we are asked in public about the decisions we have taken. Normally people seem to assume that we at least act as the nucleus of a future world government. This is of course a total misunderstanding.

They seem to think that simply through our collective will world economic development can be managed like a calculating machine, avoiding errors or omissions. That's a phantastic misinterpretation.

Of course, we ministers, prime ministers, chancellors and the like, we could easily put up with this if it were just somebody's naive assumption, nothing more. But of course it does imply a great danger which concerns me deeply time and again, namely, that those who believe in such miracles are bound to suffer disappointment, and that in turn can mean a serious erosion of public confidence. But it is public confidence that we need.

Of course, not only the world economic summits are subject to such fundamental misunderstandings. The same is true of the meetings of boards of central banks, or of, let us say, the IMF, the Group of Twenty, or the Group of Ten, or the EEC Commission, or EEC Councils, the Euro-Council included; the same is true of meetings of national governments, and of leading businessmen.

The inflation tendency goes hand in hand with this illusion tendency. I think at least one of the conclusions to be drawn is simply that all of us have to try to tell what they think is the truth, and nothing more than the truth. Sometimes, of course, one can err oneself, and this can have serious implications. But at least each of us should have the will not to tell more than what he believes is the truth about the future, not only the pleasant but also the serious aspects, like structural change and what it means to people who have been earning their living in one job for 20 years and will now be asked to move to a totally different occupation or location, perhaps to have to ride every morning 30 km in their Volkswagen and go back another 30 km at night. But we have to tell them the truth, and to find a majority support for our own understanding of the situation before we can put our own ideas into practice. And I think even in moments of frustration you should not allow yourself to complain about this state of affairs. We must make it clear to the public that this long and often weary process of gaining majority support is a necessary

consequence of the democratic system which we have chosen and which we want to maintain also through periods of serious economic and therefore serious social tensions which might also result in political tensions, in some countries at least.

Let me come to my last point but one. I want to be a bit more specific as regards my own country. The architects of our constitution 30 years ago did not lay down the detailed principles regulating the economic development of this country. But, of course, the political parties in our federal and state parliaments have in those 30 years reached a far reaching consensus—ever if they deny it in parliament day by day—that the rules of the market economy should prevail wherever this is possible. Thus, when, 12 years ago, we passed a law on stability and growth it was decided that state action to promote monetary stability and to encourage growth should be performed within a market economy framework.

This means economic development in this country will primarily depend on a very wide range of decision-making not only by those authorities I mentioned earlier, but especially by private enterprises. Such decision-making involves in many cases, and for good reason, worker participation in this country; in some branches of industry this has been the case for almost three decades, in others for only 2 years. The number of businessmen who complain about this state of affairs is already declining rapidly and it will decline still further. Let me explain why.

I strongly believe—and this is not a matter of ideology or prejudice but a matter of political experience—I strongly believe that to take part in a decision normally means sharing the burden of responsibility for that decision. The German trade unions—we do not have many, less than 20, rather big ones, rather strong ones—the German trade unions are very reliable partners in sharing responsibility. This would be denied by many of the German guests here this evening, but I would ask them to relax. I invite them to try and move their factory or their firm to some other country of their own choice, and we will then compare labour relations, and they might be happy if somebody were to pay their fare back to Frankfurt.

The German trade unions have over the past 30 years always been reasonable partners in the collective bargaining process. They have never killed the cow because they knew that next year they would want to have some more milk or some more butter from that same cow. And the state has never interfered in this collective bargaining process, despite many temptations and many invitations to interfere. The parliamentary opposition in particular, and public opinion leaders as well, even some highly respected journalists in Frankfurt, have sometimes urged us to interfere, but we have refrained from doing so.

It is quite a burden for a leading trade union body or for entrepreneurs or employers to have to take the decisions themselves and to live with the consequences of those decisions for the next 12 or 15 months. There is no *scala mobile* and none has ever existed in this country. They are responsible for their own fate, as regards costs, as regards inflation, as regards the standard of living of the workers. Of course, you cannot impose such responsibility on somebody just from one day to another; you have to educate your own associates, your own people, your own employers as well as your trade unionists. They have now had 30 years' training in the exercise of that responsibility. It is true, as my neighbour on the left

said, that in the last 18 or 24 months or so the social climate has become a bit rougher than it used to be. But nevertheless I know quite a few people all over the world who understand why the social climate is, relatively speaking, so attractive in this country.

I think that the role of the trade unions, the responsibility they have to bear—and they do not always like to bear that responsibility—goes a long way towards explaining the German social and economic situation. Of course, we have to admit that decision-making, at the top of a great enterprise for instance, is by no means easier where worker participation is involved. It is, in fact, more difficult. There is no denying that. It is sometimes difficult even without the trade unions, because you have the bankers on your board. Of course, it would be better to have nobody from the outside involved and just decide by yourselves. And of course it is more difficult to have trade unionists on your board. It is not so easy, in collective bargaining, to settle your strikes or your industrial conflicts without the interference of the state. But this is one side of the coin.

The other side of the coin is—at least this is my personal conviction and experience—much more important: to let the other partners in collective bargaining and in participation procedures know that they are always responsible for their decisions even when negative consequences ensue from mistakes they have made. And as the two partners know perfectly well, this is a matter of principle: the state and especially the government are not ready to take responsibility for those mistakes. I say the same at any trade union congress in Germany and at any industrialist congress in Germany. There is not much difference between the speeches; there may be some difference in terminology, and that's all.

My feeling is that from this sharing of responsibility a realistic view of common responsibility and its consequences has gradually evolved in this country, and that this has greatly contributed to social stability in this country, a stability which we have enjoyed throughout the postwar period. And I believe that this is probably the most important single factor behind our, relatively speaking, satisfactory economic performance.

In conclusion, let me just add a footnote to the fifth point to run over the main procedures for economic policy making in this country. Because of our federalist constitution, to which I referred earlier, neither the federal government nor the federal parliament can implement a nationwide programme of public deficit spending or any programme of tax law amendment, just to give two outstanding examples, without previously having convinced the regional governments of the 11 Laender or at least the majority of them. Otherwise no such law can be passed, not even executive steps can be taken. You may feel this is ridiculous—I feel the same sometimes, but I have to live with it.

Our constitution has given the Laender a wide sphere of competence. If we want to start spending programmes we normally have to reach agreement with all of them. The attitude of German voters, not only in federal but also in regional elections, has led to a situation where the majority of the federal government in the Bundestag, in the federal parliament, is no longer identical with the majority in the Bundesrat, which is made up of the representatives of the 11 Laender cabinets.

You have opposite majorities in both houses, but you need the consent of both houses on most bills aiming at additional expenditure or lower taxation. Thus, it is a rather complicated situation, especially if you take into account that the 11 Laender parliaments are directly subject to the results of regional voting and indirectly respond to how they hope to influence the next election in that Land. In 12 of the 30 years of the postwar period, these two majorities have not been identical; during 10 of these 12 years, from 1969 to 1979, I was a minister or chancellor and I had to live with this situation. Former chancellors, except Willy Brandt had to live with this situation for only 2 years, in the early 1950s under Adenauer.

I hope that people from other countries will understand or will at least imagine how difficult and how exhausting the procedures are bound to be in such a system of more checks than balances, whenever you have to put through some additional measures or have to take some new step, whether concerning growth policy or support for structural change, or whatever it may be.

I mention all this not so much in order to give you a realistic picture of Germany or to ask for your sympathy but to draw some consequences from that example. Examples could also be found elsewhere; I just took this one from my own country. Such a system means that many authorities, many sides, must seek compromise and be ready for it, otherwise the system will collapse.

And this is something which ought to be learned all over the world, the necessity for compromise, also in economic and financial and monetary relationships. Otherwise the world will collapse.

I must admit that not all peoples of the world are as fond of compromise as for instance our British neighbours. I hope nobody will mistake this for irony; there are always some exceptions which, as we say in German, only prove the rule. But the necessity for compromise must not be forgotten, it is imperative. In an international system where there is no international government, and will never be, we must cooperatively manage our joint international economy, on which all of us depend.

And it is not only at home, it is abroad as well where we have to reckon with exaggerated expectation. Many people believe that perfect economic performance depends mainly on government action. That is a mistake. It is only true in the Soviet Union or the People's Republic of China, not elsewhere. And there, consequently, you do not have a well-functioning economy.

A well-functioning economy depends on the action of many, many entities and their governing boards, executive directors, and what have you. All these people have to know that, in a way, the risk of disappointment and frustration among the public is an integral part of the system in which we are living and which we like.

To sum up this point. Not only on the side of enterprises and employers and trade unions, but also on the side of the legislators and even the governmental executive side, economic management is nowadays government by discussion, to take up this old phrase, learning from each other, understanding the interest of others, and not disregarding competition and one's own interests. It is difficult to conceive, but the world is changing.

It is a ridiculous relic from former times to think in terms of national economies. Maybe the Soviet Union and the United States and the People's Republic of China are entitled to think in terms of their national economy; they may be the only ones in the world. At least in the United States the situation is changing. It will be changing in China and it has started to change in the Soviet Union as well.

Those who are responsible, or are thought to be responsible, for policies have to do their very best to bring the public's expectations down to earth. Our management by discussion should not be considered a failure, if it does not succeed in one case or another. But we also have to do our best in order to influence enterprises, banks, trade unions, politicians from the major parties, we may have four of them in the future—I don't know whether there is anybody present from Bavaria who could tell us—to influence all these people to take their decisions in a congenial spirit. It is on this understanding that I wish your conference to be meaningful and to widen further the insights of this, as I understand, already enlightened audience. Thank you very much for your attention.

Chapter 15

Speech of Chancellor Helmut Schmidt and Subsequent Discussion with the Advisory Committee of the Chase Manhattan Bank, 16 June 1980 in Bad Godesberg

At the suggestion of David Rockefeller, with whom he was on friendly terms, Schmidt hosted a lunch for the Advisory Committee of the Chase Manhattan Bank in Bad Godesberg on 16 June 1980. Its members were not only bank managers but also politicians like the former Secretary of State Henry Kissinger. In a highly complex global situation caused by the Soviet Union's military intervention in Afghanistan, Schmidt answered his guests' critical questions. He explained why on the one hand he had supported the American boycott of the Olympic Games and why on the other he had maintained German–Soviet trade relations in the absence of a convincing comprehensive Western strategy. At the same time he promised not only to criticize during his forthcoming visit to Moscow the Soviet SS-20 missile system that was a political threat to Western Europe but also to denounce the Soviet intervention in Afghanistan as unacceptable. It was not simply a personal tribute addressed to Helmut Schmidt when David Rockefeller, in thanking him for his frankness and conceptual clarity, praised him as “one of the world's great leaders”.

Mr. David Rockefeller told me and I found it confirmed that I am the host today. So we decided that I would start talking. But I am not going to make a speech. I would just like to make a few words by way of introduction and then leave to you to ask questions if you like. I would rather prefer to answer questions than to make a speech.

I would like to welcome you all, gentlemen, and especially I would like to mention four of you with whom I have had personal relations over a long period of time. In the first instance, of course David Rockefeller. David will remember, we had known each other as one does know in international affairs each other, but when I was appointed a minister of finance in this little country here I happened to stay in the United States at that time. My first action as a freshly appointed secretary of finance was to go to a telephone booth and call up David Rockefeller at the Chase Manhattan Bank and ask him to give me an interview which he did in order to advise me on international, financial and monetary affairs of which I didn't know anything at that time. I was very thankful of that. And I will never forget all the modern drawings and paintings in your office and around your office, David. And we have kept our relationship, our friendship since then. And I think I have drawn

a lot of information from David Rockefeller and have learnt a lot from him. He has always been very helpful, so I feel indebted to the Chairman of the Chase and to the Chase group.

Secondly I would like to mention a German, this senior industrialist in our little country, Hans Merkle, who has been an honorary advisor of the chancellor many times in the last 6 years, as long as I was in office, mostly not agreeing with me or with my party rather, but nevertheless giving serious and good advice when being asked for advice and I have good reason to feel thankful to Hans Merkle.

I would also like to especially welcome Henry, sitting on my left. Either he or I have told the story many times, but it may be new to two or three of you, gentlemen, so I repeat it once again. We have known each other now for 23 years or so, when neither Henry was very important in the United States nor was I in Germany, but we have kept close contact all over these more than two decades. And I have learnt a lot by his judgement, his insight and we have really, when Henry was foreign secretary of the United States of America and when he was security advisor previous to that and when he was working in Harvard in his capacity as a teacher there and as a researcher there—we have co-operated very well. It came to my mind the other day that we among many other meetings met early in the sixties in a little place near Harvard, Massachusetts, when the United States administration of that time, it was a Democratic administration, tried to sell us Europeans an idea about how to organize a fleet which was going to carry medium range ballistic missiles. The name of that fleet at the time was multilateral force, MLF—a three-letter-word, mostly you have four-letter-words in your military terminology. You tried hard to convince us. We were not convinced. Just in the end, when we were on the verge to accept it, happily your president dropped it. So we got rid of that. Sometimes presidents drop ideas. That has happened later on again. Sometimes it also happens in Europe.

I would also like to personally welcome the American ambassador to the Federal Republic of Germany, Walter Stoessel, who is one of those great diplomats of whom you don't read much in the newspapers and whom you don't very often see on television, but who really do their work in a professional way and on whom you can rely. And I feel deeply indebted to the American ambassador to my country. I would like to say this.

Now I have gathered from meeting you in the anteroom and from reading that sheet here in my place giving your names and professions that there are quite a few people coming from other countries, from Norway and from India and from Japan and from Singapore, from Italy. I wonder, Signore Agnelli how FIAT really is being run because I meet you all over the place whether in Germany or the United States—Aix-la-Chapelle was the last time I think—or we met at the television screen. He talks in Milano and I talk in Bonn. I was told it did make sense to the Italian audience. I hope it did.

Well, gentlemen, I would like to welcome you all here. I understand that you have had so far a tour deluxe of Germany being able to talk or listen to all these celebrities or would-be celebrities in this country including myself. I admire your stamina having seen your schedule. And I would now like to invite you to test my

stamina and just ask questions. I would be very frank understanding that this is a very private meeting and nothing will be reported to the outside world.

Thank you very much.

Question (Wilson, Chase Manhattan Bank): Mr. Chancellor, I read, I think 2 weeks ago, about a new agreement that you are entering into with the Soviet Union, an agreement under which you assist the development of some resources in the Soviet Union and that you perhaps extend your trade relations with the Soviet Union. I wonder if you could tell us how you view this agreement in its significance to Germany for the future, what is involved in a shorter period.

Chancellor Schmidt: There are quite a few aspects of the economic relation between the Soviet Union and the Federal Republic of Germany. Number one: We opened up these economic relations and the economic exchanges about 10 years ago, not for economic reasons but for political reasons. And the government—when we Europeans or Germans use the term government it means what you mean by using the term administration—our government, my predecessor as well as myself have always assisted the growth of this exchange for political reasons. I will come back to the political reasons later on. It need not be expanded because it is quite voluminous, it is quite considerable. In the meantime it has even become economically important for our economy which we did not anticipate, not only as regards the export of capital goods, investment goods, pipes for instance, machinery especially, but also insofar as we get a number of raw materials from them which we don't get so easy from other parts of the world, natural gas for instance, enriched uranium. We find it difficult to depend totally on Canada or the United States because your political judgment on supplying us enriched uranium changes from year to year. So we found it important to diversify our imports in that regard. But this doesn't really play a great role. It is just a joke I make at random. But it is a true joke. For them the economic importance is greater than for us. Their bedevilled planned economy which never will really work as good as the Italian or Japanese or American or German economy always leads to bottlenecks or short-comings where they lack very badly things which only the market can give them—market meaning Japan or Europe or North America. So we have built on this foreseeable permanent weakness of their planned economy in order to see to it that our market provides what they from time to time need sorely. The quid pro quo in an economic relationship with the Soviet Union lies in the political field especially in a field which goes unnoticed in the *Washington Post* or the *New York Times*, certainly unnoticed in the *Wall Street Journal*, but is of greatest importance to us. We get out of the Soviet Union plus the rest of the East European states under communist dictatorship about 40,000 people every year. We are not talking so much about human rights, but we are able to give human rights to 40,000 people a year. They are legally leaving the Soviet Union, legally leaving the People's Republic of Poland, also other states, Romania and the rest, settling down here, where they want to go, where they wanted to go since about 30 or 23 years—Germans, Germans by birth, by origin, Germans by their language, Germans by the feeling in their hearts. This is of enormous importance to us. We don't advertise it so much, because we don't want to put those people at home who have

to take those decisions, Gierek in Warsaw or Breshnev in Moscow—not to put them at the spot vis-a-vis their own domestic opposition.

They can tell their economic planners and even their military what they get in terms of goods from France, Italy, Germany, other countries in Western Europe and make their comrades in the Politbureaus understand that one has to give something in exchange.

So to my heart the most important thing they give is people, freedom for people, freedom for German people. Also, of course, did we reckon from the very beginning with the likelihood or even did we strive for a situation in which they should understand that in order to maintain these economic relations that are so necessary for Mr. Kossygin for instance, not necessary for Mr. Ustinow, but for Mr. Kossygin it is of great importance, that that they be politically moderate, behave moderately, which taken all into account they more or less have done in the seventies especially. Highlighted was this development by the 1974—or was that 1975?—I think it was 1975—meeting in Helsinki and all the obligations which anybody did undertake then. You will remember that the United States of America and Canada, both North American countries, were partners to the Helsinki Declaration. Some of the obligations nobody has really lived up to, but some others have been lived up to, at least tendentially. So we have had a rather peaceful decade in Central Europe, different from the sixties and different from the fifties.

Now coming back to the agreement you had in mind, sir, it is nothing really important, because it is only a follow-up, a sort of an executive directive under the umbrella of a great trade agreement which we made 2 years ago in Bonn when Breshnev was here. That is devised for 25 years. What they are doing now, what they have negotiated now is nothing else but filling in the details. The great agreement has been concluded 2 years ago.

May 78. This is only filling in the details and again only in an abstract way. You seemed to be asking as regards specific projects. There are a few under way, not really mature. But they will not be part of this so to speak executive regulation. The real thing has been concluded 2 years ago. And we are willing to honour our obligations under this agreement 2 years ago as I hope that they are. The American administration knows about it, they don't seem to like it. But we will certainly stick to it because if anybody in the world needs to stick to his agreements or his treaties or his pacts, it is the Germans after all, given the not so long ago history under Hitler and given our own national interest as I have tried to explain it to you.

Just to put a footnote to all this. Henry and I were talking about a speech which he seems to have given either to you or to somebody else whilst you were staying in Berlin, noting that a general strategy of the West vis-a-vis the Soviet Union after Afghanistan was lacking. And just by chance I think that this is totally right. It is lacking. If it does lack for some time to come I am not going to destroy what I have in my hand, just for the sake of looking nice to somebody who wants to do something against the Soviet Union and doesn't have a strategy. The Germans would participate in forming, shaping a strategy as would the French. It is a fact that the French and the Germans and the British, all the three of us have earlier this year in a written form submitted proposals for forming a strategy vis-a-vis the

Soviet Union after their intervention into Afghanistan. But it has never really matured and in the absence of any common grand strategy I don't see much sense in cutting into trade. I would just like to mention to you that in the meantime this kind of trade even economically means something to us. I think it is in the order of less than one percent of our GNP, in the order of 0.6 or 0.7 %, 0.7 % of our GNP. If you translate this into employment it means something.

And not only is there a campaign year in the United States, it also happens to be true that there are some democracies in Europe and they have campaigns from time to time, we have one this year. And I boast an unemployment figure of 3.3 % and I am not going to increase that. But also after the election day I don't see any sense in cutting into that economic exchange—I really don't. I could be convinced on a basis of a grand strategy which would have to embrace many more things than just cutting into trade. It is easy for an American to ask us to cut into that trade, because you are not selling capital goods, only to a very small extent. You are not a great exporter, you are a poor exporter, if compared with the European countries. You export about 5 or 6 or if it, then comes high less than 7 % of your GNP. We in Europe are exporters, we live by exports. Some of us do export even one half of their GNP. Some of us have to export one-third as we Germans, because we do not have all the natural resources you have in your country in America. Japan and continental Europe, these are very poor countries. We do not have copper, we do not have zinc, we do not have uranium, we do not have tin, we don't have anything, we don't even have iron ore. If we are happy we have a little coal or lignite, but the Italians haven't even coal or lignite. The French don't. What we have is just skill, brain and some amount of industriousness in our people and therefore we have to export in order to import all these raw materials. We are traders given the poverty of our soil. Of course, we can produce potatoes and gain and our things to feed ourselves, but we can't produce iron ore, we can't produce copper, we have to import all these: coffee, cotton, what have you not, tobacco. And therefore it would be basically wrong to cut into our trade relations. We might do if it was necessary in the framework of a grand strategy. But the grand strategy being not present I don't see any sense in cutting into our trade.

Question (Vernon, chairman of the Canadian firm CSR Limited): How do you see the course of Mr. Vance?

Chancellor Schmidt: Well, I think Cy Vance was on his way to prepare for drawing it up some time after the election in the United States. He did seem to be rather lonesome insofar. He has now been replaced by Senator Muskie, whom I have known formerly, but not as a Foreign Secretary so far. From my own experience one needs some time to live up to the necessities of a new portfolio. He may come round, I don't know. I don't know what the outcome of the American presidential elections is going to be, whether the old administration renewed a bit might take on some new ideas or whether a new administration might bring new ideas to the scene or take up the old ones. I think it is easier for an American to give an answer to your question than for a European.

Question (Rockefeller): Would you describe your trip to the Soviet Union, to visit Mr. Breshnev, you see it in the same light that you did the trade agreement?

Chancellor Schmidt: I am not sure whether I got the meaning of your question.

Question: I wondered whether the reason why you felt it was advantageous, desirable to visit Moscow at this time, whether that it was roughly the same as the reason, you felt this trade agreement was desirable.

Chancellor Schmidt: I am not going there as a trader. I will not be talking about any economic aspect. If they bring it up, of course, I will be willing to talk about it. But from my point of view it is really not necessary, because we have a joint commission, German–Soviet commission, which just had its ninth meeting a couple of weeks ago here in Bonn. They are meetings one year in Moscow, the other year in Bonn. The last meeting is just a fortnight or 3 weeks ago. And on their part they were represented by Tichonow who is the acting Prime Minister right now since Kossygin is ill, who is an economic planner like Kossygin himself. But if they want to talk economics, well, nothing against it. Now the purpose is in the first place, even if doesn't sound very convincing to you, to talk at all. We were rather afraid in Europe in January and February, March, April that the two superpowers did not talk to each other and did not listen to each other just abusing each other. It is obvious that nobody in the West is thinking of applying military power in order to throw the Soviet Union out of Afghanistan. This is obvious. Nobody proposes that.

On the other hand we all want them to leave Afghanistan if this is possible. Now the two sentences together do make sense only under the assumption that you use other means to bring them to a decision to leave Afghanistan.

And to participate in the Olympic summer games just wouldn't do. We are not participating as you may know. There are only three countries in Europe who don't: Norway, Germany and Turkey, Turkey rather being an Asian country than a European one, but I would list them as a European in order not to show up so lonely. But I feel rather lonely in this respect. I hesitated long enough to the American request not to participate in the Olympic Games and said, if I agree not to participate you can rely on our being able to deliver it. It is not so easy to convince one's National Olympic committee and one's sports' activists who have good chances for gold and silver and medals. We told the Americans as early as February that if the Russians did not change conditions in Afghanistan we would not be able to go. They did not change the conditions there and therefore we went to our National Olympic Committee—it cost me personally 20 h, several meetings to convince these people.

But in the end we did. I mention this just in order to give one of the many examples I could give for showing to our foreign guests that we live in the habit of delivering what we have pledged. But it will certainly not move the Russians out of Afghanistan. On the 3rd of August the Olympic games are over. The great danger of all these little gadgets to punish them in the field of public prestige or international prestige, the great danger of all these gadgets is that once you have applied them and once they have digested all these little gestures, they can live happily on, you know, staying in Afghanistan. What are you going to do next? Now you break off economic relations, then you do not participate in the Olympic

Games. Anybody clearly foresees that this will not lead to their decision to leave Afghanistan.

What are we going to do then? So Henry is quite right: a grand strategy is lacking. And as long as it lacks all these gadgets are just good for convincing one's own public opinion that one is doing something, but it is not really doing enough. It will not lead to a situation where the Russians leave. And I am going to tell them, David, that they ought to leave and that their staying in Afghanistan is unacceptable. I used the words of the Franco-German declaration on that. That is still the strongest wording. There are many speeches being made on that issue in the United States. But it is still the strongest wording outside the United Nations. They will also repeatedly hear what they already know and what they are in no doubt about, that there are no chances for them to drive wedges between Europeans, whether it is France or Germany or others, and the United States of America.

They will also hear for the third or fourth time that we think their potentially overwhelming armament in the field of euro-strategic weaponry or what you call it of medium range nuclear weaponry, SS-20 and the like and Backfire bombers and the like, is unacceptable and that they have to reckon with the fact that the West will follow suit and built up a counter-weight against that enormous political threat and that there is no chance to talk the Germans out of doing so and participating in it, no chance of trying to scare the Germans out of co-operation with that, although I would like to point out to the American friends around this table that this decision was not easy to be taken in Germany. You might consider the geographical position of this little country. It is really a little country, although it does have 60 million inhabitants, 60 million Germans plus 2 million Turks, 2 million others. It is just the size of the state of Oregon. Please think of Oregon with 60 million people living there, no raw materials, close to the Russian border—from my house in Hamburg it is just 20 miles before you meet the first Russian tank—and in this densely populated area you already have several thousand—in the newspapers you read 5,000 or 6,000, I can agree, the order of magnitude is right—several thousand American nuclear weapons on our soil already, meaning that they are targets at the same time and now adding quite a few more to them, 572 more, most of them in Germany. It is not so easy to take such a decision.

You would not place another aggregate of 500 or 600 strategic weapons in the area between let us say Boston and Philadelphia where you have the same amount of density of population as we have in this country, you would never think of doing so. But we think of doing so. So do the Italians, so with some hesitation do the Dutch and the Belgians. I will tell the Russians that we are going to stick to that decision. And fourthly I am going to tell them that it would be better for them and anybody in the world if they would slow down their armaments in that field and would bring it to a halt and rather negotiate on mutual limitation. I do not believe that they will negotiate before they know who is going to be American president for the next 4 years and not before SALT II is going to be ratified. I hope it is going to be ratified, not only because I am in doubt whether at all arms control can be carried on if this treaty remains unratified, but even more so because I fear that

American leadership in the Western world will be lost if you negotiate over 6 years an arms limitation treaty only to see it rejected by Congress. Nobody in America really seems to understand what this means as regards trust and confidence into American leadership. You cannot tell your allies and the rest of the world over 6 years that you negotiate a crucial treaty on crucial weapons and in the end fail to ratify it and leave the world as it was before the beginning of these six years and just tell us: sorry, we didn't make it.

I have gone beyond your question, David, I beg your pardon. To sum it all up, what we are going to tell the Russians, will not be nice to their ears. But it will not either be a demonstration of strength which we don't really have as a single country. We will tell them what we believe, we will tell them our concerns, we will tell them our aspirations and we will tell them that we still believe in the balance of military power in Europe. And if it is not going to be brought about by mutual limitation then it has to be brought about by additional armaments in the western part of Europe on the western side of the equation. All this will not be very new to them, as much as Giscard's talk with Brezhnev didn't really present news to them, but it confirmed what they had known or should have known and have neglected when they marched into Afghanistan.

Question (Haley, Chase Manhattan Bank): Mr. Chancellor, how about the relationship between East and West Germany?

Chancellor Schmidt: The relationship has been much worse formerly. In fact there has been no relationship at all until the early seventies. You know that there are 16 million Germans living in the so-called German Democratic Republic, GDR as you abbreviate it in your language, 16 million, under the presence of several hundreds of thousands of Soviet troops, tanks, aircraft what have you not, nuclear weapons. They have been forbidden to leave the country to visit with their daughters or sons or nephews or even to see, to meet their fiancées since 1961, since the wall was erected. In the course of the seventies we have taken up a very specific type of relationship. We haven't acknowledged the GDR, but nevertheless we have exchanged representatives. They have a permanent representative here, we have a permanent representation in East Berlin. On traffic and trade we have negotiated and concluded agreements starting from the very small to the small, it is not big. But we have managed to get their approval for about 8 million West Germans seeing their relatives and friends in East Germany every year. There are 8 million people travelling from west to east and coming back, which is quite something. They have given up jamming our radio and television. Of the 16 million living there about 12 or 13 million will listen to our West German television every night. So they are better informed about the political development in West Germany than the average man living in West Germany who does not pay so much attention to the political development as they have to do, because they feel to be hostages to leave and they are in a cage, because they are not being allowed to leave their country and visit in West Germany, only the pensioners are. You have to be if you are male and at least 65 years old to be allowed to make a trip to West Germany and if you are female you have to be 60. And there is quite a ratio behind that, because they are fond of anybody who leaves and doesn't come back, because

they then save the pensions. But no younger person so far is allowed to leave the country for very clear reasons. Their experience was until 1961 that hundreds of thousands of people left and didn't come back. There was an exodus from East Germany to West Germany which they now have effectively prevented for 19 years.

To sum it all up, the relationship is not good, but there is a relationship. Formerly there was none. It has been improved without doing anything in the last 6 months. Since the danger of a possible third world war is being felt in all of Europe, Western Europe, especially in Eastern Europe, in Hungary, in Poland, also in the East German republic, even the communist leaders in East Germany seem to better understand now than formerly they did that they are in danger in such an eventuality. Even the communist leaders now in the first instance feel to be Germans rather than communists as is since long the case in Poland. So not by any diplomatic or government action, but just by a transformation in the soul of people the feeling is more friendly now than it has ever been in the last two decades. This does not mean that any practical consequences might flow from these more friendly feelings of today, although I do have the intention if nothing goes totally wrong in Moscow to see the communist leader of East Germany in the course of this year.

Rockefeller: If I may I would like just to say on behalf of all of us in the Advisory Committee and my Chase associates that we are deeply grateful to you for giving us this lunch and in all honesty it is more than we can possibly hope for and expect in its generosity and in its beautiful setting but most importantly it is the frankness and the openness with which you have spoken to us, the very friendly comments that you addressed to some of us for which we are very touched and grateful. I think for any private group to have been able to have this opportunity to exchange views with one of the world's great leaders it is a very real privilege and is greatly appreciated. I do think this particular moment in history is a very important one for such an exchange and I think all of us coming as you noted from many different lands, not only from the United States, are deeply concerned about the state of world affairs. And it seems to me that at a moment when leadership is not as strong as... around the world that perhaps it is a moment when the private sector can play a more constructive and helpful role than perhaps it would.... So I would hope that this has not been wasted time for you. It has been a very enjoyable one for us. Thank you very much indeed.

Chapter 16

The World Economy is Our Common Fate: Helmut Schmidt in Fortune, 27 July 1982

In this article for Fortune (27 July 1982) Schmidt lists the causes of the crisis in the world economy since the start of the 1970s. These included the international financing of the Vietnam war, the emergence and rise of the Eurodollar market, the end of the dollar as the central anchor of the world currency system, and the policy of public debt pursued by many states. The global impact of the first explosion in oil prices had become possible following inflation in the oil-consuming countries. Despite the advantages the oil-producing countries had gained through the second wave of oil price increases, the knock-on effects of this process had not left them unaffected. This was equally true for the Communist states, including the Soviet Union, whose economy relied by that time on Western imports. In this situation, where neither an extreme policy of austerity nor increasing public debts could help, only close cooperation between the major industrial countries and the oil-producing countries could offer a way out of the cycle of crises. Because of the huge American share of the world economy and the importance of the market in Eurodollars that made the national credit policies of other states an illusion, their economy depends to a significant extent on the US policy of high interest rates. The other industrialized countries have therefore not lost their responsibility for evening out the balance of payments. As well as the European Currency System, with its important function in the region, it is also the responsibility of other international institutions (IMF, World Bank, OECD, GATT) to help in this worsening situation affecting a number of developing countries. In general, this article is a last Ceterum censeo on the economic and currency policy of Schmidt as Chancellor. Two months later he had lost his majority in the Bundestag through the change of coalition alliance by his liberal partners.

Observing the economic discussion in America and in Europe one is reminded a bit of Harry Truman and his wish for a “one-armed economic adviser”. This is not a reference to the “one-armed bandits” in Las Vegas, but rather an allusion to the fact that he was tired of hearing economists tell him: “On the one hand, Mr. President,...”—“but on the other hand, Mr. President...” The heads of state and government who meet every year at the so-called world economic summit would be happy if they could find an all-round adviser. They do not have one. In

reality, it is as Bertrand Russel once said: "That is the whole problem. The stupid are so certain, and the intelligent are so full of doubt".

I would like to consider the following questions:

- First: What are the factors involved in the present world economic debate?
- Second: What are the necessary conditions, under which the present world economic crisis can be overcome?
- Third: Where does the Federal Republic of Germany stand and where are we headed?

German economic thinking over the past few decades has taken immense strides out into the world. Our economy long ago ceased to operate only within our national borders. Now people everywhere have come to understand that there is hardly any national economy left, but almost any economy exists only in the overall context of world economy.

Problems in distant regions of the world have repercussions on national structures. This was an obvious fact even before the oil crisis and the formation of OPEC. The credit market has been internationalized for a long time now. Almost everybody's economic fate is linked with the world economy.

And the world economy is sick. Anyone wanting to heal a sickness must first of all know the cause of the sickness. Otherwise he would be nothing more than a quack or, at best, someone who is able to provide temporary pain relief. In other words, anamnesis and diagnosis must precede therapy.

The causes of the present and second-largest world economic crisis in this century are quite evident. They begin with the inflationary financing of the Viet Nam War under Lyndon Johnson. This was followed by the abdication of the dollar as the foundation of the Bretton Woods monetary system. The introduction of floating instead of fixed exchange rates was an invitation for many countries to indulge in inflationary budgetary and monetary policies.

The first oil-price explosion 8 years ago was to that extent only possible on the basis of the preceding inflation in the oil-importing countries. However, these countries still more or less continue to pursue inflationary economic policies—we Germans less than most others—and to finance their deficits to an increasing degree by printing banknotes and by accumulating a previously unheard-of volume of foreign debts. The so-called Euromarkets alone have increased eightfold in the course of the past 10 years.

This set the stage for the second oil price shock which has been wreaking havoc since 1979. From then on, in addition to stagnation, we experienced negative growth and high unemployment rates, which in many countries of the world have attained the level of 1931 and in Germany the level of 1929.

A downward spiralling vicious circle is leading to a further drop in demand. For 2 years now even the oil-producing countries have been severely affected by this situation. Thus far the non-oil-producing countries have been most heavily hit. However, the communist countries and the Soviet Union itself are also suffering

considerably as a result of their very wide-ranging economic dependency on the West.

Despite this grave situation let me try to sum things up in a somewhat humorous way. The humour here of course has a serious purpose. A satirist once described the following six stages in the development of a project:

1. enthusiasm,
2. doubt,
3. panic,
4. search for the guilty,
5. punishment of the innocent, and
6. rewarding of those not involved.

Applying this to the world economy, one could say: Many countries of the world enthusiastically set out to 'solve' their economic problems by enlarging their monetary aggregates and by printing banknotes. Doubts arose when they became aware of the consequences. Then panic spread as unemployment grew. The search for the guilty party led to the same conclusion by the citizens of nearly all countries of the world: it was of course their governments. In nearly all countries this was followed by a change of government, regardless of whether or not the latter had pursued an inflationary policy. Punishment was thus meted out also to the innocent or to those who were only partly guilty.

Finally the last stage: The rewarding of those not involved. Here I hesitate, however, since the OPEC countries, who were being rewarded, have indeed been involved. But nemesis is about to catch up with them as well.

The question remains as to what must be done. Nearly every country in the world is required to undertake the same tight-rope act of fighting inflation and at the same time combating unemployment.

16.1 What Will Not Work

This requires structural adjustments everywhere by means of promoting private and public investment activity. Those countries who have to import large amounts of coal, oil or gas will have to continue to concentrate their activities on the energy sector, i.e. energy conservation and oil substitution, for a long time to come, despite the current drop in oil prices which will of course not persist.

Highly developed national economies will not be able to cope with this difficult dilemma by administering quack cures. Reasoning about supply-side economics or monetarism, which is based too heavily on ideological aspects, is at present no more helpful than extreme Keynesianism. And the combination of Keynesian budgetary deficits and restrictive monetary policy leads to extreme interest rates and thus stifles investment in housing and fixed capital.

Any country in a difficult economic situation that seeks its salvation only in a deflationary budget policy will aggravate recession and unemployment as well as

hamper the investment activity necessary for structural change. In the second phase, the lack of investment and unemployment will endanger its social and political stability.

Conversely, exclusive concentration on a policy of expanding demand is just as incapable of leading us out of the present difficulties. At best it provides temporary relief. In the second phase, rising prices, a current account deficit and decreasing competitiveness on international markets will soon make it necessary to reverse this policy.

Highly developed economies cannot be guided out of the present difficulties by means of instant solutions. Matters that have been neglected for years cannot be corrected in a lasting way only by issuing brisk orders. With highly developed economies one cannot execute a snappy turn like one can with an Olympic racing dinghy. It takes a little time with a sea-going yacht, even more time with a navy frigate. Modern economies are like super tankers that require infinitely more room for manoeuvre and time to change their course or speed. Added to this is the fact that we are having to change the structure of our tankers at sea in mid-voyage.

One might object that it is relatively easy to establish truisms with regard to what will not work, that would accept this criticism and concede that the depression of the 1930s offers enough instructive material regarding what must not be permitted to happen. It is much more difficult to say what in fact ought to be done, especially since today's crisis is based on entirely different causes and is taking place under circumstances entirely different from those of the Great Depression of the thirties.

16.2 Twelve Preliminary Guidelines

I want to attempt to outline a very tentative answer in the form of a number of guidelines.

1. Every country must undertake great efforts to overcome its own economic problems. The economic policy mix of every country must of course be tailored to its own situation. This means that it can be quite different from one country to the other.
2. It is essential that consideration be given to the international effects of each country's national economic policy and that any kind of "beggar my neighbour policy" be renounced. With the sole exception of the People's Republic of China, no major country in the world is able any longer to cope with its economic problems in isolation. This means that every country is dependent upon the functioning of international trade and international financial relations.

No country must endanger their functional viability. For this reason there must be no trade protectionism, no devaluation races, no monetary protectionism, no domino-like bank failures. There must be no boycotts, no vivisections, no blocking

of established trade mechanisms. Enough trade mechanisms change without this, as I have already indicated.

3. The United States holds the most important key today to fundamental improvements in the world economic situation. It accounts for around 35 % of the gross national product of all industrial countries. Some 80 % of all the world's official foreign exchange reserves are held in US dollars. Three-fourths of the volume of the Euromarket is denominated in this currency. Today this amounts to a gross sum of 1,700 billion dollars, an almost unimaginable figure which, at the same time, illustrates what I said above, i.e. that there are no longer any national credit markets of importance.

The leading role of the United States, deriving from these dimensions, requires special consideration for the effects of American economic policy on the rest of the world. This applies especially to the high dollar interest rates both in America and on the Eurodollar markets. In most cases the partner countries cannot avoid being influenced by American economic patterns. At most they can reduce their dependency somewhat.

James Tobin compared the present interest rate situation to a football stadium in which all of the spectators stand up at the same time in order to be able to see the game better. When that happens, of course everything stays the way it was before—no one really sees any better for it.

4. Japan, France, Britain, Canada, Italy, Germany and the other industrial countries also hold keys, albeit much smaller ones. They must commit themselves to, be committed to, and discipline themselves for balancing their current accounts in a medium-term time frame, the faster the better. Anyone with a current account surplus should open his import markets further in order to help the world economy as a whole. Anyone with a current account deficit should exercise budgetary and monetary restraint, in order not to place a financial burden on the world economy.
5. Every budgetary or monetary restriction necessitates, unpleasantly enough, the political courage to demand sacrifices of one's own people. In our case the greatest sacrifice is unemployment, but for the developing countries hunger and need are of course the most difficult to bear. Justly distributed cuts in real income, which, incidentally, will only be temporary, will be easier to accept. But, I am only repeating a commonplace by adding that price-wage indexing is only a placebo. It looks like medicine, but has no healing effect.

Japan and Germany have led the way by setting a good example. Japan began in 1980 and we followed suit in 1981, and especially in 1982.

6. There must be no devaluation races. The experience of the 1930s in this area was terrible. Karl Otto Pöhl, President of the German Central Bank (Bundesbank), recently pointed out and quite rightly so, the danger of a "vicious circle"

of devaluation and imported inflation, a possible repeated devaluation or ensuing deflationary policy.

7. The International Monetary Fund must be strengthened as the central monetary policy institution in the world. It must not be weakened. Nor must it be restructured to form an instrument of development policy; the latter continues to be the function of the World Bank. However, the behaviour of both institutions cannot be determined by the debtors, or else further world inflation would be the inevitable result.
8. There is a need for guaranteeing orderly market conditions on the foreign exchange and financial markets, as well as security on the Euromarkets, limitation of erratic fluctuations on the foreign exchange markets, but not for price-regulating operations against the market trend. The European Monetary System has an important regional function to fulfil with its fixed but adjustable exchange rates.
9. GATT must be preserved and strengthened. There must be no trade war, neither in our relations with the East nor within the triangle formed by North America, Europe and Japan; neither with oil-supplying countries, nor with non-oil-supplying developing countries which supply other raw materials. The behaviour of the industrial countries will determine the trade policy climate of the world. The burden of persuasion will have to be assumed particularly by countries like the United Kingdom, Germany and most of the West European countries, which would suffer most due to the high dependency of their economies and jobs on imports and exports.

It was agreed at the Versailles summit that the West-East credit relations should be oriented towards the principle of mutual advantage and also be limited, albeit along the lines of commercial prudence, as it was called there. The limitations and controls for the export of strategic goods should be improved within the framework of 'COCOM'.

But there must not be any trade war: not with the East and not within the West in particular! Sanctions and embargoes are violations of economic prudence—and sometimes even of international law.

10. We will have to accord to the poor developing countries, the LDCs and LLDCs, stable earnings from their raw material exports to the extent possible. This will certainly be unpopular in our own societies. However, a worldwide commodity fund experiment would hardly be suited to this purpose. It would be better to extend the time-tested Lomé Convention to include additional countries, both on the export and import side, and additional commodities.
11. Development aid will remain indispensable. Technical and educational aid as well as financial aid must be further expanded. This is also in the industrial countries' own long-term interest. Soviet and COMECON involvement in development aid is totally insufficient. Their aid consists essentially in supplying weapons as well as military and political advisers.

Pressure must be exerted on the Soviet Union to provide economic assistance.

12. The North-South dialogue and “global negotiations” in the context of the United Nations must finally get underway for the purpose of ultimately realizing these points. This also includes a dialogue on oil prices, on future energy policy and future population trends in the world.

In speaking with others we can learn from them. In a dialogue the developing countries will learn that their own efforts will have to be given a better conceptual foundation. Verbal demands for a “new economic world order” lack substantive consistency. The industrial countries will have to learn that integrating the developing countries into the international distribution of labour requires far-reaching structural changes not only from them but also from the Soviet Union.

This is an incomplete list of guidelines of greatly differing weight. They reflect my way of thinking. These thoughts are of a global nature rather than oriented to German interests. Entrepreneurs, industrial managers, merchants and bankers with their wealth of day-to-day experience will have no problem in extending this list or filling in the details.

Some of them may well feel a desire to contradict the points 10, 11 and 12. There are also governments in the world that are not or not yet willing to follow such far-reaching Third World strategies. The pursuit by a country of its own short-term interests at the expense of its long-term interests is in a way typical of systems of democratic government dependent upon elections. This is one of the negative aspects of democracy which one must fight without complaining.

It is indeed very difficult for many governments and parliaments in the West to implement even guidelines 1–9. Alternative and round-about routes will be sought and followed. A lot of time will be necessary. But the implementation of development policy guidelines 10–12 will take even more time. Thus, the question arises: what can we expect in 1982?

16.3 What We Can Expect

The changes expected in the oil markets for 1982 may reinforce the clearly visible success in slowing down inflation in all of the industrial countries. A further drop in the oil prices will ease the current account situation for both the industrialized and developing countries. The German current account is coming back into balance anyway. The Americans and the Japanese continue to record current account surpluses. In Frankfurt and Tokyo, this creates room for economic policy manoeuvre in general and for a stronger decoupling from extremely high American real interest rates in particular.

A lowering of long-term interest rates could have a stimulating effect not so much on corporate income statements as on the building sector, even though this will probably not materialize before the end of the year. A lowering of oil prices alone will not provide sufficient economic stimulation. It will have to be accompanied by a cut in interest rates in real terms, especially in the United States.

At the same time, almost all industrialized countries are under pressure to stimulate employment and create jobs. As long as this cannot be achieved through a lowering of interest rates, the temptation will be very strong for them to create jobs through increased government borrowing. However, one of the main causes of current account deficits and of the self-inflicted portion of the high level of interest rates is precisely the heavy public borrowing. This was the case in Britain until recently. It is still the case in the USA, Italy and the Netherlands, not to mention Belgium. It applies to a diminishing degree in the case of Japan and Germany, and to an increasing degree in the case of France.

We see once again that no industrial country is in the same situation, and not one is in an easy position. Yet they all urgently need higher rates of public and private investment. Hence they all attempt to stimulate investment activity in different ways. We Germans, for example, are trying to do so by means of specific tax relief, investment grants and by keeping wage-cost increases down. But the overall rate of investment in the industrialized countries will increase only slightly in 1982—if at all. This means that a drop in seasonally adjusted unemployment figures in all Western economies cannot be expected this year.

An industrial upswing will not occur before 1983. However, the signals must be set accordingly in several countries in 1982. This has been done in budgetary and monetary terms in Britain and in Germany.

The European Monetary System has functioned well thus far. It has created a reliable basis for calculation for the large European internal market which, especially for smaller companies, is much more reliable than those existing outside the EEC. The result has been an intensification of trade within the European Community, going beyond the general rise in world trade. All of the participants profit from the fixed, but adjustable exchange rates.

This will not change in 1982 either, despite large differences in government deficits, inflation rates, interest rates and unemployment within the European Community. The German mark did not become a reserve currency and the cornerstone of the European Monetary System on the basis of a decision, but rather as a result of our reliable and more successful economic development. In 1982 we will continue to make use of our position to counteract the tendency of some countries to devalue by stages and we will work towards greater budgetary and monetary restraint also in 1983.

16.4 Short-Term Outlook for Germany

After this survey you will understand why I look at our German economy with relative optimism. Even though almost without raw materials, we are more strongly integrated in the world economy than the United States, Canada, France, Italy or Japan. A much greater proportion of our jobs depend on a prospering world economy. As a result, we have been hard hit by this worldwide recession. However, we are better off than anyone else in the European Community and the

Atlantic Alliance in terms of unemployment, inflation and interest rates; in terms of growth in 1982, we can hardly expect to do any worse than most other countries. Japan will of course be ahead of us.

Germany will not change its budgetary, fiscal and monetary policies; as a result, our currency will be under pressure to re-evaluate in the course of the year.

The current account deficit will be settled this year. It would thus be possible for interest rates to decrease—but the attraction of exceptionally high interest rates in the USA could bring about a considerable transfer of liquidity and capital into US dollars and thus prevent a total decoupling of interest rates.

The wage agreements for 1982 are exemplary in view of the overall situation. Management and labour have taken a long-term view of things, especially the trade unions, whose behaviour has manifested solidarity for their unemployed colleagues. This year German wage costs will not be an obstacle in international competition. Our export sector is doing a flourishing business. Since 1 January a number of tax relief measures have been in effect for many companies. The investment allowance came into effect retroactively as of the same day.

The powerful underlying structures in our economic system and our society are especially our system of collective bargaining, based on a balance between management, on the one hand, and strong unified trade unions, on the other. This system is not regulated by the Federal Government, but it is the envy of many foreign governments. It is shored up by an exemplary social security net and a pragmatic policy mix determined by the government, parliament and the autonomous Central Bank (Bundesbank).

The adaptation of our economy to the new structure of the world economy is in full swing. Since our first Energy Programme of 1973 we have been reducing the dangerous dependency on oil imports step by step through energy conservation measures and a diversification of risks. This means that we have been moving away from oil and towards coal—the only important source of energy in our soil (at a depth of 1,000–1,200 m)—towards natural gas, renewable sources of energy and also towards nuclear energy.

Within this range of energy sources, the gas-pipeline deal between the Soviet Union on the one hand, and Italian, French and German companies on the other will, for example, if working at full capacity, account for less than 6 % of our energy supplies. This deal will therefore not result in one-sided dependency for our economy. Like our European partners, we will adhere to this deal. We shall, indeed we must meet the contractual commitments we have undertaken.

Our energy policy has been successful. The share of oil in the energy consumption decreased from 55 % in 1973 to just under 45 % in 1981, whereas real economic growth amounted to 17 % in that period. It is expected that the share of oil will account for not more than approx. 43 % in 1982.

Having said all this there is still serious concern. Since we cannot disengage ourselves from the world economy our unemployment rate will vary between 6 and 7 %. For many Germans this seems to be unforgivable. The construction, steel, shipbuilding and textile sectors, and hence many regions in which they are concentrated, the Ruhr district, in particular, are being hit most seriously.

16.5 Summary

The positive factors within the German economy will only produce an upswing if and when the American budgetary decisions are taken and when the US deficits are reduced so that American interest rates can be normalized. The US policy mix is the key to all other economic developments. If this key is not turned, we are all heading for depression. But if the key is turned without delay there are sufficient prospects for positive changes all over the world, including Western Europe and hence many of the developing countries.

Paraphrasing a remark by the French diplomat Romain Gary you could argue that what I have described can be compared to the gargoyles on Gothic cathedrals: one admires the artistry and, in the process, forgets that what is coming out is ordinary water. To be sure, the German Chancellor also “cooks with nothing but water”, as the German saying goes.

However, I would like to ask that my comments be viewed in the light of a fundamental conviction which I would like to stress once more at the end of my remarks. Without peace, without social consensus, without domestic stability, without consultations and co-operation between the governments of the economically influential countries there is little prospect of the tide turning. The two belong together: peace both at home and abroad—or as it is written on Lübeck’s medieval city gate: “Concordia domi, foris pax”.

One needs reliable partners for both. At home it is the desire of all for fairness and a just balance of interests. Outside one’s own country this partnership is exemplified by the solidarity in the North Atlantic Alliance, by the IMF, the world bank and the other international institutions like OECD, GATT—and for us Europeans—by the European Community.

In almost all these institutions and under almost every aspect the United States of America is the leader—if only for its weight and size. It often seems as though Europeans and others in the world do not overly like American leadership. And every so often the Americans do not like it either. But there is no choice: whether accepted or denied, whether liked or disliked, whether disguised or openly displayed, whether for better or worse, American leadership is unavoidable.

It will be most beneficial if applied considerably and consistently—and, if at all possible, quietly as well. One may abdicate oneself from one’s leadership, one may deny the global consequences of one’s own economic behaviour; but the United States will not escape its historic responsibilities.

Chapter 17

Helmut Schmidt: Facing One World—A Report by an Independent Group on Financial Flows to Developing Countries (Excerpt) 1990

In spring 1990, Helmut Schmidt summarized the results of the deliberations of an independent group of experts on financial assistance to developing countries under the title “Face one World”.¹ At a time when the Cold War had just ended, there appeared for the first time an opportunity to reduce the cost of armaments, to increase assistance to developing countries in a focused manner, and to achieve economic growth while avoiding damaging the environment. This is a snapshot of a time when new opportunities for a more peaceful and cooperative world seemed to be emerging and it was possible to think of ways of using these opportunities fruitfully. Contributions of this kind demonstrate the continuing political engagement of the former Chancellor many years after his term of office had ended.

17.1 The Need for a Global Approach

1. By the end of the century 6 billion people will share a planet faced with growing global challenges. Yet the continuing high rates of population growth, widespread poverty, accelerating environmental hazards (in particular the dangers of climatic changes) and proliferating drug abuse remain largely unaddressed.

At the same time, the growing integration of the world economy greatly complicates the appraisal and management of national economic policies. The inter-relationships among trade, debt, growth, investment, capital flows, interest rates and foreign exchange rates often dominate economic activity, yet they are seldom either understood or recognized. Individual nations continue to emphasize internal or, at best, regional political and economic objectives, preferring crisis

¹ This text by Helmut Schmidt: Facing One World: A Report by an Independent Group on Financial Flows to Developing Countries, was first published in: international environmental affairs, a journal for research and policy (Hanover, NH: University Press of New England) 2,2 (1990): 174–181. The permission to republish this text was granted on 11 October 2013 by Ms. Deborah J. Gray, Permissions Manager, University Press of New England.

management to long-term strategic action and thereby, often adding one scarcely manageable risk to another.

In these circumstances there is an obvious need to reach a consensus—a *comprehensive strategy*—on a global approach to economic, social and environmental problems. That approach will need to recognize the potential of market economies and take account of the differing needs of individual nations. But it will also need to recognize that, in today's global economy, the success of each nation is related to the success of the whole.

2. Although *One World* is seldom recognized in day-to-day political management, in *many* areas it is *already a reality*. There is only one global environment; only one global financial market—one bond market, one market for credits, one international currency market, and one stock exchange, all operating on a 24-h basis.

3. *But since the breakdown of the Bretton Woods system of fixed parities the emergence of this global financial market has coincided with serious fluctuations in exchange rate, huge deficits in national budgets, imbalances in trade and current accounts and upheavals in equity markets.*

4. Against the background of floating exchange rates and partly as an unforeseen result of two oil price shocks in the 1970s, the *level of external indebtedness* in a number of developing countries skyrocketed, culminating in a crisis of finance. As that crisis developed, the world largest economy, the United States, became the largest borrower. Consequently *the flow of financial resources has been reversed*. The net flow is now from the less developed countries towards the industrialized countries within the Organization for Economic Cooperation and Development (OECD)² towards the United States.

5. In spite of some efforts to maintain the, albeit, modest and inadequate level of official development assistance (ODA)³ granted to *developing countries, per capital gross national product (GNP)* in a large number of these countries *has fallen*, stretching human and political tolerance to the limit. Developing countries' share in world trade decreased dramatically; terms of trade for non-oil commodities hit the lowest figure for decades.

6. *Over the last 20 years the gap between industrialised and developing countries has widened enormously.* Between 1965 and 1987, the real per capita GNP (calculated on the basis of 1987 dollars) increased from \$140 to \$270 for low income countries, from \$980 to \$1,680 for middle income countries and from \$8,820 to \$14,550 for industrialised market economies.⁴

As things now stand, there is every prospect that in the coming years the gap will widen still further.

7. Despite both a period of steady growth in the *industrialised countries* and an increase in the volume of world trade, these countries, too, *have not been free of*

² "Facing One World," see Annex A, Definitions and Explanations: p. 30.

³ "Facing One World," see Annex A, Definitions and Explanations: p. 30.

⁴ "Facing One World," see Annex B, Statistical Table 1: p. 36.

problems. Since the two oil price shocks, real economic growth has been slower and many of the industrialized countries have been suffering from high long-term unemployment, particularly in Europe. Protectionism is growing and could easily escalate into trade conflicts between emerging trading blocs. Moreover, recent concern about an international re-emergence of inflation has made growth prospects more uncertain.

8. *Centrally Planned Economies (CPE),⁵* with the exception of the People's Republic of China, *have also suffered from low growth rates* and most of them continue to remain outside the organisational structure and practices of the world economy.

9. These inter-related problems will not be solved without a long-term pooling of forces by all nations working together in a spirit of *genuine international co-operation*. In our judgement, such co-operation could open an avenue towards sustainable global economic growth and, in particular, could improve living conditions among the poorest within the family of nations. . . .

17.2 The Way Forward: Recommendations

41. Adequate and *sustainable growth in the world economy and in world trade is the key* to developing a sound and efficient pattern of international financial flows, particularly towards the developing countries.

42. Sustainable economic growth cannot be achieved in a monetary environment characterized by high inflation and erratic exchange rate fluctuations. *The future world monetary system must therefore exert disciplining effects on national economic management*, combined with close international co-operation.

The European Monetary System (EMS) demonstrates that more stable conditions can be achieved. A strengthening and widening of this system could eventually pave the way towards a reform of the world monetary system. As a further step towards international monetary co-operation, the Soviet Union, China and the CMEA countries should be invited to participate more fully and equitably in international monetary arrangements.

43. *Free trade* is a prime benefit to the world economy but *is under attack*. Efforts must be mobilized for its defense. Effective steps to fight all kinds of protectionism and to abolish all trade barriers are essential, particularly in the field of agricultural products, capital movements and services.

To achieve this goal, OECD countries in particular should make a concerted effort to reduce substantially all non-tariff barriers over the next 5 years. This would reverse a process which, in the period between 1981 and 1986, saw non-tariff barriers increase by 35 % in the United States and by 20 % in the European

⁵ "Facing One World," see Annex A, Definitions and Explanations: p. 30.

Economic Community. Over 10 years, OECD countries should more to eliminate all tariff tamers as well as the remaining non-tariff barriers.

44. The declaration of emerging free trade areas, such as the European single market, favouring a further widening of free trade and opposing all barriers that would stifle growth potentials, are welcome. But all temptations to develop these regions into economic fortresses must be resisted. These *emerging free trade areas should remove non-tariff barriers against third countries* and particularly less developed countries.

45. The present structure of global capita] flows will not be reversed as long as the richest economy in the world, *the United States*, continues to absorb a substantial share of the world's capital formation and the two biggest capital exporting countries, *Japan and the Federal Republic of Germany*, continue to concentrate their enormous surpluses largely in the United States.

46. The United States must apply policies designed to reduce its massive fiscal and current account deficits and resume its status as a net capital exporter by the mid-1990s.

In order both to raise its savings rate and strengthen capital formation, the United States should *restore fiscal balance within 4 years*, by both expenditure cuts and, if necessary, tax increases. The United States should reduce incentives for debt creation by abolishing tax provisions which favour debt rather than equity financing.

47. Energetic efforts by *Japan and the Federal Republic of Germany* are essential in order to reduce their current account surpluses vis-a-vis the rest of the world and to base their economic growth on domestic demand. (In the case of Japan, this process has already begun.) The two countries *should reduce their current account surplus to 1 % of GNP*. Both should take budgetary measures, e.g., abolishing preferential tax treatment of private saving and encouraging public expenditure for infrastructure purposes. *Japan should increase its ODA dramatically—from below the OECD average to 1 % of GNP*.

48. *The Soviet Union and the other CMEA countries, as well as the People's Republic of China, should take steps to integrate their economies more fully into the world economy.* To encourage this process, they should be welcomed as full participants in international organizations, such as the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade (GATT), provided assume the full obligations of membership. Adjustments should be made to the voting rights in the Bretton Woods institutions in order to accommodate an enlarged membership.

49. The present thrust of *Chinese, Soviet and other CMEA countries* leadership towards *structural reform of their domestic economics is welcome*. The extension of private credits at market terms to these countries should not be discouraged.

The Soviet Union should undertake to become a more important donor of ODA.

50. After a period of renewed Cold War and a competitive arms race, *the United States, the Soviet Union and their allies now seem prepared to reduce political confrontation and to negotiate mutually balanced disarmament treaties*. The

normalisation of superpower relations has already led to a solution of some regional conflicts. There is a window of opportunity for a negotiated structure of relations between West and East, which, by *reducing political tension and the military burden*, could help efforts to:

- a. *tackle the US budgetary problem;*
- b. *bring about economic improvement in the Soviet Union and the East European countries;*
- c. *increase the flow of funds to the developing countries;*
- d. *improve conditions for global economic growth; and provide funds for environmental problems.*

51. *The developing countries should make the creation of a favorable economic environment a priority.* This should include efforts at lowering rates of inflation, opening markets as soon as conditions permit, requiring parastatal enterprises to meet market standards, addressing the problems of the poor, reducing rates of population growth, avoiding degradation of the environment, improving legislation concerning private property, establishing an equitable tax system and reducing government intervention over micro-economic management, etc. The economic environment will be the key factor in determining further lending by commercial banks and in attracting foreign direct investment. Coupled possibly with legal amnesty measures, a more favorable economic environment would reduce capital flight and encourage capital repatriation.

52. Self-sustaining growth for *all developing countries* will ultimately depend on their own efforts and policies to enhance savings and production efficiency. At the same time, many countries representing a large proportion of the world's population are so mired in poverty and so poor in resources that *sizeable amounts of official development assistance are urgently needed to start and support the growth process.* Such assistance should be conditional upon strict standards of efficiency and effective return on capital. Consistent with meeting those requirements, the total amount of *ODA provided by the industrialised countries should be doubled over the next 5 years.*

The least developed countries and disaster relief should continue to have first claim on ODA funds.

At the same time, *the preservation of the environment will require very large amounts of capital.* The greenhouse effect will oblige all states to reduce the emission of carbon dioxide gases caused mainly by energy production using hydrocarbons. This obligation cannot and should not impose additional burdens on the developing countries. Those burdens should be borne by the industrialized countries who, in the past, have been mainly responsible for the emission of greenhouse gases.

53. Public opinion, parliaments and governments of the donor countries find it politically difficult to increase development aid, to impose new taxes, or to earmark specific funds within the normal budgetary process. Nevertheless, in order to ensure the long-delayed increase in the resources for *ODA, a mechanism of*

automaticity should be explored and implemented in each donor country. For example, if such a process were to start at 0.5 % of GNP in 1990 and rise by 0.04 % per annum, it would reach 0.7 % in 1995 and yield somewhat over \$100 billion per annum.

54. *Donor nations and international financial institutions should give special consideration to countries which:*

- a. *emphasize poverty reduction programmes;*
- b. *spend less than 2 % of GNP on military expenditure;*
- c. *apply or take steps toward efficient family planning policies in order to cope with the problem of population growth; or*
- d. *implement policies aimed at the preservation of the environment.*

55. *There is no region in the world in which the problems of development are as overwhelming and pressing as in sub-Saharan Africa.* This is true in terms of population growth, environmental degradation and declining agricultural and food production, but it is particularly true with regard to the dearth of trained and skilled human resources.

Ultimately, the possibility of redressing their situation lies with Africans themselves. However, without sufficient levels of policy-making, professional, technological and managerial leadership, this is a responsibility which sub-Saharan Africa cannot bear. Donor countries and multilateral agencies should make special efforts to provide funds for the educational training and qualitative enhancement of African leadership in these and related areas. Specifically, *the OECD countries—with major participation by the surplus countries—should establish a billion dollar endowment fund* to be administered by the African Development Bank. The proceeds of this should be *used to assist the development of such leadership* in order to create the institutional infrastructure in sub-Saharan Africa so vital to its achieving sustainable political stability and economic growth. In addition, the flow of external financing to this region should be increased over and above projected levels, by means of both further specific debt relief and large ODA.

As a means of encouraging transnational co-operation, investment should also be targeted at regional and subregional projects and programmes.

56. *Special assistance should be given to address the drug problem,* including the eradication of drug-producing crops. The donor countries should supply long-term financing to support concerned governments in their efforts to replace present production with food or agro-industrial crops and to attend to the basic social needs of those involved in the transition process.

But the developing countries, involved in the production of basic agricultural crops from which drugs are manufactured and distributed, cannot assume sole responsibility for a problem which concerns mankind as a whole. Consumer countries have a major responsibility, not only to reduce demand for drugs, but to bear the financial, social and political burdens in the fight against drug consumption and international drug trafficking. All governments should recognise the global implications of the drug problem and should take immediate and collective

action. To this end, *an international agreement should be reached* between all those countries involved in the growth, spread, trafficking and use of drugs.

57. The complexity of the debt issue, as well as its structural variety, call for urgent and long-term solutions on a ease-by-ease basis, this *requires fresh institutional approaches*.

58. *The problem of the heavily indebted countries demands priority attention and immediate action*. Recent developments underline the urgent need for new initiatives which will provide both for the restructuring of existing debt and for the new financing which will be needed to meet future requirements. Not only is the present situation deteriorating, but without positive action, prospects for further economic growth and financial stability will be seriously jeopardized. Democracy itself is in danger of being undermined. The *Brady Plan* officially recognises that commercial banks must, directly or indirectly, accept a reduction in the value of their loans to the developing countries. It also accepts, for the first time, the need for the Bretton Woods institution to support debt reduction. Detailed measures must include some combination of debt and interest reduction, as well as official support by way of new funds and partial guarantees of re-written and reduced commercial bank debt.

In this connection, it is essential to recognize that *effective co-operation among commercial banks, international institutions, debtor and creditor governments, requires simultaneous action*. This will not be achieved without adequate financing and strong centralized leadership from the heads of the two Bretton Woods institutions. The IMF and the World Bank will need to work closely together to encourage joint evaluation and review.

59. This process might be achieved most efficiency through *the creation of a new facility sponsored by the World Bank and the IMF*. This facility should aim to mobilize substantially greater funds than those now flowing to the developing countries. Such funds, in addition to those provided by the IMF and the World Bank, would be furnished by voluntary contributions from OECD countries, *with Japan playing the major role*.

In time, it might be desirable for the facility to assume an institutional structure, to raise equity and to borrow from the markets. It could immediately become a focus for leadership in the negotiation and co-ordination of effective debt relief consistent with development.

60. Given the very size of the financial needs of highly indebted countries, *Commercial banks* that wish to maintain an active presence in these countries should be encouraged to provide increased financing for trade or investment. In some instances co-financing with the World Bank and the regional development bank is appropriate. Commercial banks, in particular those which do not agree to voluntary debt relief or to provide significant new money, *should be asked to accept local currencies for a portion of the interest due to them*, thereby creating funds for local investment. These co-ordinate financial programmes should be based on economic programmes extending over several years, under the general surveillance of the World Bank and the IMF.

61. Given the serious political and social implications of the domestic adjustment programmes on which further financial flows will be conditional, the multilateral institutions should consider establishing *an advisory group* to review the general criteria used for establishing conditionality.

62. Because *Japan* has played, and should continue to play, an increasing role in the financing of the IMF and the World Bank and, in particular, the International Development Association (IDA), its *increasing contribution should be recognized by the provision of adequate voting rights*.

63. *Reductions of commercial bank debt will not be a panacea*. If agreed on a voluntary basis, it is highly unlikely that the relief will be sufficient under present conditions. If, on the other hand, such reductions were to be imposed unilaterally, they would seriously endanger the future credit worthiness of the highly indebted countries. There remains, therefore, *a pressing need to meet their external financial requirements*. The secretariat of the United Nations Conference on Trade and Development (UNCTAD) estimates that the amount of additional external resources necessary in order to achieve 3 % growth per capita in the highly indebted countries is roughly \$16 billion per year over the next 5 years; i.e., a 30 % reduction of the outstanding debt to private creditors would reduce interest payments by this amount.⁶

64. Governments of *OECD countries should promote private investment in—and lending to—the developing countries* by means of various supportive measures, such as government guarantees against political risks and changes in regulations, accounting rules and tax laws, which would help to build up reserves against possible loan losses.

65. The link between trade, debt and development must be recognised. *A substantial expansion of the highly indebted countries' traditional and non-traditional exports* is essential both for resumed economic growth and in order that significant progress can be made in solving the debt problem. Combined with a strengthening of the export-oriented strategies initiated by a number of the developing countries, a more open and favorable international trading environment (including the reduction of non-trade barriers, quotas, certification of origin and an extension of specific preferential treatment) will offer possibilities for servicing debt.

66. *Members of OPEC and other oil-exporting countries* should accept their share of responsibility for undisrupted and smooth global economic development. Acknowledging the effects of the row oil price shocks in the 1970s, they *should undertake to provide oil at predictable and stable prices*. The price of oil should on average reflect the requirement of balancing long-term supply and demand.

67. A favorable domestic environment has played a key role in the emergence of Newly Industrialized Economies (NIEs), fostering their evolution from developing to industrialised countries. On the other hand, severe economic constraints

⁶ (Complete document. Note 34) sec UNCTAD, *Trade and Development Report*, 1988: p. 112–118.

and negative growth rates in a number of other countries are clearly the results of wrong economic policies. *We call attention to the fact that the primary responsibility for economic and social advance lies with the people and leaders of each nation.*

Chapter 18

The Global Situation: A European Point of View

Fourth Gerd Bucerius Lecture, 17 September 2003

On 17 September 2003, in the Gerd Bucerius Lecture, organized annually since the year 2000 by the German Historical Institute in Washington in honour of the former publisher of the Hamburg weekly “Die Zeit”, Helmut Schmidt presented an analysis of the global situation. He focused on three themes: (1) the rise and future role of China; (2) the risks of ethno-religious conflicts, of which the “war against terror” against Al-Qaida was only one aspect; (3) the role of financial markets that are scarcely any longer controlled by policy-making. He addressed these from the perspective of the common and opposing interests of the United States and of Europe. It is a global survey of remarkable clarity and frankness.

Ladies and gentlemen, thank you for the invitation.¹ I have been a guest in this country about a 100 times: this might very well be my 101st visit to the United States. Because I intend, among other things, to voice some opinions that will not sound convenient to every American in this audience, I would like to begin by quoting myself, so to speak, as a foreword to my remarks.

About 20 years ago, I wrote that if I leave this country and emigrate, I would, without a doubt, try to go to the United States of America. I like this country and I have not changed my mind. I still feel strongly attracted to America’s vitality and generosity, to your hospitality.

Today, of course, I am speaking as a private citizen, and my remarks should in no way be understood as expressing the opinion of the German government. I plan to address five different topics. I will assess the current global situation, introduce some global certainties in the coming decades, raise some possibilities for the future, and discuss the future role of the United States as well as that of the European Union.

Twenty years ago, I gave a similar speech in Beijing, China. It was the time of Deng Xiaoping, Yuri Andropov (or it may have been Konstantin Chernenko), and Ronald Reagan. I reread that speech this summer, and found that I had predicted

¹ This lecture was first published by the German Historical Institute in Washington, D.C. in its *GHI Bulletin* No. 34 (spring 2004): 9–24. It is republished with the permission of the German Historical Institute that was granted on 11 October 2013 by Dr. Richard F. Wetzell, Editor, *Bulletin of the GHI*.

that there would be three powers of global importance at the end of the twentieth century: namely, the United States, China, and Russia. It seems that this prediction has come true—so much for my otherwise limited abilities with respect to forecasting.

18.1 On the Present Situation

If you look around the globe today, the situation in Latin America differs little from two decades ago. One finds hunger and poverty in many places, domestic unrest in others, economic and debt problems from time to time, but a quickly growing population as well. The same is true for Africa, but there, economic and social difficulties have assumed a more devastating character than in most places. Time and again, you will find tribal, ethnic, or religious wars as a result. From Nigeria to the Sudan, to Burundi, the Congo, and Liberia, Africa remains a deeply troubled continent. But neither Latin America nor Africa presently pose political dangers of global consequence.

The situation inside Europe is calm with minor exceptions, one being the Balkan Peninsula. Most European states have the usual social and economic problems, but the integration of Europe under the roof of the European Union is progressing slowly but steadily.

In Asia, the greatest economic progress right now is taking place in China. Somewhat slower progress is occurring in India. In Japan, there has been an economic standstill for about a decade and a half, but it might soon end. With the possible exception of the Kashmir conflict, it does not seem to me that the world today is faced with dangers originating from these three leading Asian countries. On the other hand, today one also finds an Asia with three new nuclear-weapon states: Israel, India, and Pakistan. And it is unclear whether Korea and Iran are developing nuclear weapons.

The only dangers of global importance at the moment seem to be in the Middle East. The American war against Saddam Hussein was won quickly, as expected, but the situation of the whole region is as unclear and as dangerous as before. The conflict between Israel and her immediate neighbors, Palestine, Lebanon, Iraq, and Syria—with terrorist activities on all sides—has escalated in recent months, and could eventually burst into the type of open warfare already seen in that region in the past. The conflict is fueling anger and emotions in Israel and many Arab countries, particularly among the younger generations.

The Arabs understandably resent the Israeli forces of occupation in the West Bank and Gaza, and quite a few of them want to totally eliminate the state of Israel. But we also see that some Israelis tried to prevent the formation of a Palestinian state. Of course, Israel relies on the backing of the United States. The U.S. also has friendly relations with Saudi Arabia, Egypt, and other Arab countries. For this reason, not to mention America's military, technological, and financial leverage, Washington is in a unique position to improve the situation and

exert pressure. But for decades, American policies in the Middle East have not been very consistent or rigorous. The so-called quartet has laid out a so-called road map, but today the map appears to be an outdated piece of paper.

Outside of the United States, very few people have accepted the concept of an “axis of evil” that supposedly reaches from North Korea via Iran to Iraq. These three states have almost no connection to one another.

The future American proceedings in Iraq appear as uncertain as those in Afghanistan, and it is unclear how much the moral authority of the United States might suffer from these uncertainties.

I must confess that I am one of the critics of the Bush administration’s strategies in the Middle East. But, on the other hand, I have also invited audiences—public audiences—in Berlin, Moscow, and other places on the globe to ponder the following question. If foreign terrorists were to hijack three fully occupied, wide-body passenger planes scheduled to fly from St. Petersburg to Moscow, and crash them into the Kremlin, thereby killing 3,000 people, what would be the psychological and political reaction in your nation to such a colossal crime, one that came so entirely out of the blue? Or what if this were to happen in Berlin or Paris? As a result of World War II, these places have understood their own vulnerability in a way not known in America before September 2001. Nevertheless, it seems likely to me that, in such a case, any national government would try to bring all the power it could muster to bear. Time and again, I have invited audiences to imagine the impact of such a colossal crime on their own nation, on their own government, in order to gain some understanding of the American nation’s extreme psychological state, and the government’s resulting domestic policies, both of which obviously dominate American foreign policy at the moment.

The proclaimed “war on terrorism” can be wrongly understood as having just one enemy. In fact, we are witnessing many transnational terrorist activities across the borders of sovereign states, from Manhattan to the Middle East, and from the Basque region in Spain to Ireland. These activities are occurring inside India and other Asian countries, in several African regions, in Latin America, Chechnya, and on the Balkan Peninsula. Beginning in the early 1970s, we Germans had to endure murderous, transnationally assisted, organized terrorism for almost two decades. In most cases, however, national, transnational, and international terrorism has different social, psychological, and political origins. For example, many murderous terrorist organizations have nothing in common with Islamic extremism. These groups differ in their motivation, their organization, and their mode of operation.

Therefore, one needs different methods and means to fight different terrorists, depending on the specific circumstances of each case. Al-Qaeda and the Taliban in Afghanistan were fought with military operations. But if, for instance, one were to detect clandestine Al-Qaeda pockets inside a sovereign state whose government had made concerted, albeit unsuccessful, attempts to eliminate them, then other nations might actually be reluctant to undertake military action against an otherwise well-functioning state. One cannot fight the Irish Republican Army in London with warfare in Northern Ireland. We Germans could not hope to win our fight against the terrorist organization RAF (Rote Armee Fraktion) in Germany by

waging war against the country that assisted it in the hijacking of a fully occupied passenger aircraft in an African country a 1,000 miles away.

Because of Al-Qaeda, the catch phrase “war on terrorism” has become an expression of the decisive will of the American government and the entire nation to use all of its capabilities and power to overcome this threat. Leaders, the media, and public opinion stand in solidarity in the interest of the nation. Many other countries expressed their solidarity with America, and cooperated with the American government in various ways.

The preventive war against Iraq, however, had almost nothing to do with the war against Al-Qaeda. The war was not based on a decision by the Security Council. In my view, it thereby violated the Charter of the United Nations. Thus, the oppositional abstention of Russia, China, France, Germany, and other states was, in my view, legitimate. Nevertheless, it was very unwise, to say the least, to let the impression arise that Moscow, Paris, and Berlin were forming an oppositional group against America. Britain and some other European states actively participated in the war, and a rift formed inside the European Union. What this may mean for the future, and in particular for the future of the United Nations or the European Union, remains uncertain. Before dealing with future uncertainties, however, allow me to speak first about some future certainties.

18.2 Some Future Certainties

I take it as a certainty that almost all Europeans, and Russians as well, share a vital interest in avoiding a clash of civilizations with Islam, since hundreds of millions of Muslims live in places that are geographically close to Europe and Russia. Millions live inside Russia’s borders, and even more live in cities such as London, Paris, Berlin, Hamburg, and Amsterdam. Today, more than one-fifth of the total population of this globe are Islamic believers, and their share is growing. Therefore, I take it as a certainty that Europe will try to resist any inclination toward a general clash with Islam.

Ominous certainties exist as well. The population explosion that has been underway since the early twentieth century will continue, reaching proportions unknown since the time of the Emperor Augustus and Jesus of Nazareth. Today, the world’s 6 billion inhabitants have only one quarter of the space per capita that they enjoyed just 100 years ago. And by the year 2050, we will have only one-sixth of that space. And you only need to look at cities like Jakarta or Sao Paulo or Cairo in order to imagine what is going to happen.

There also is no longer any question about the advance of global warming. It will trigger climatic shifts, and it will certainly cause the sea levels to rise, not only as it has done in the twentieth century, but maybe also in the twenty-first century, and certainly in the centuries thereafter. As a result of overpopulation and climatic shifts, there will be an increase in local and regional wars in Asia and Africa. Immigration to Europe will certainly continue to increase significantly, and only

by common action will the Europeans be able to regulate this movement. It is also certain that the globalization of financial markets is no longer reversible.

The greed and speculation of private financial institutions operating globally, subject only to inadequate regulation and worldwide supervision, are undermining and obstructing the economic and fiscal policies of governments of many sovereign states. The common currency, the Euro, and the European Central Bank are only the first steps in the defense against this.

Because of communications and the Internet, the globalization of almost all technologies is certainly unstoppable, and the proliferation of all kinds of weapons, including weapons of mass destruction, is just one of the consequences. Above all, jobs and the relatively high standard of living in industrially advanced countries will come under pressure as a result of competition from the outside. In terms of technology, this competition will be at our level. In terms of cost and price, however, it will be very much below our level.

For almost every sovereign country, it will no longer be possible to act in isolation to overcome cross-border epidemics. And the same is true for the transnational and international drug trade, and for all kinds of transnational terrorism. It is also true for transnationally organized crime and the international arms trade.

18.3 Possibilities and Probabilities

So far, I have enumerated some future problems that mankind will certainly have to face within the course of the next couple of decades. Let me now ask, “What are the possibilities? What is probable? What is likely beyond these certainties?” When we ask ourselves who is winning and who is losing as a result of globalization, the answer, in my view, is threefold.

First, the winners thus far are almost all of the highly developed industrialized countries and their populations, including America, most European countries, Japan, and Australia. As of yet, the relatively high rates of unemployment in Europe and America and the growing unemployment in Japan have very little to do with globalization.

Second, in the case of developing countries, only those governed by economically enlightened—but at the same time, strictly authoritarian—governments will be among the winners. China is the outstanding example. The same can be said of a few oil-exporting countries. Here, one might point to the countries once called the “four little tigers,” Singapore, Hong Kong, South Korea, and Taiwan, all of which have done well for their size. They no longer fit into the category of “developing countries.” But the development we have seen in the “four tigers” over the last four decades has required authoritarian governments. For me, it is conceivable, but far from certain, that Russia may also land on the winner’s side.

Third, on the other hand, a great number of the developing countries that are trying to establish markets and democracies are failing socioeconomically. Therefore, in many cases, they are failing politically as well.

In my view, it is a shameful mistake to urge them to open their borders to the import of manufactured products from our countries, while at the same time withholding the opportunity to export their own agricultural products, just as we saw in Cancun recently. The United States, the European Union, and Japan are still very egoistic sinners in this respect. They preach free trade, but they have not obeyed their own sermon thus far. Instead, they are indulging as deeply as ever in protecting their own farmers, their own steel-makers, and so on and so forth.

On top of that, many developing countries have been persuaded to open their economies in return for short-term foreign credit and short-term money, and to liberalize their current accounts, thereby opening up their countries to all kinds of speculation from the outside. As a result, they are getting into foreign debt, some of them quite deeply. The Southeast Asian credit and currency crisis of 5 years ago should have taught them a lesson. In my view, the International Monetary Fund (IMF) and the World Bank's rescue operations, from Indonesia to Mexico and Russia, have only bailed out the recipient developing countries to a small degree. Private Western financial institutions received the interest payments and dividends due to them, and thereby got most of their money back—a situation that would not have arisen without the intervention of the IMF.

It might be a good idea to give the IMF the mission of developing a new concept for fair order and stability in global financial markets. Almost all of our states and economies need internationally compatible standards in order for regulations to advance. Likewise, they need compatible codes for bank forms, insurance, and so on. The IMF ought not to be regarded as an ever-ready lender of last resort all over the globe. Instead, its major roles should be monitoring and providing transparency and stabilizing the economic policies of sovereign states. The enormous currency flow, the enormous volume of capital and money moving transnationally, the wave of psychotic speculation, the manifold fraudulent manipulations aimed at boosting share prices, the transnational merger mania, the feuds between private financial institutions—all of this calls for better surveillance and regulation, but I am not particularly optimistic here.

Certainly, with the process of globalization and the ongoing spread of information and technologies, global interdependence will continue to grow, whether we like it or not. And the country that tries to seal itself off from that process is likely to be left behind, with North Korea being a good example. Badly governed, poorly organized, undeveloped (or under-developed) countries will also be left behind or even left out. They will only partially benefit from globalization.

Some Asian countries, and almost all African countries, originated from former colonies and protectorates. Their borders and organization were arbitrarily determined by imperialist and colonialist powers with no regard to ethnic, religious, and cultural facts. Therefore, these developing countries embrace very heterogeneous populations. Stability plus good government will remain rare in such

heterogeneous countries. It is therefore likely that the majority of developing countries will continue to suffer in the coming decades.

18.3.1 China

The greatest economic success in the past two decades has come in China. This success has resulted from the far-sighted, courageous, but cautious leadership of Deng Xiaoping. He did not introduce perestroika or glasnost overnight; instead, he created a steady development toward individual, private businesses and markets. My first visit to China, about 30 years ago, during the time of Mao Tse-tung, allowed me to experience a rather awful Communist society. The phrase “blue ants” was quite correct; everyone had to obey the orders of the Party, and the Party had no idea how to feed and create jobs for 700 or 800 million Chinese at that time. By the way, now, only 30 years later, there are more than 1.3 billion people in China. The population explosion in China is still one of the country’s greatest problems. But, on the other hand, these 1.3 billion people are clearly better off today than they ever were before. All of them are better off: some of them a bit better off, some of them quite a bit better off. And today, if you were to go to Kwantung, Shanghai, Beijing or other big cities in the east of China, you would think at first glance that you were visiting an American city with a very modern skyline, enormous traffic on the road, and a bustling private economy. The economic growth rate in China over the last 10 years or so is an almost incredible 8 % in real terms. Of course, they still have to overcome enormous problems. They still need decades of peaceful evolution.

One of their major problems is the ideological or philosophical void. The old ideology has lost its credibility and its attraction, but there is no replacement as of yet. Of course, the hundreds of thousands who return from universities in the United States, Canada, and Europe bring the ideas of Western civilization back to their country. But when I ask young Chinese entrepreneurs or young Chinese scientists and intellectuals aged thirty to forty about their spiritual future, I get answers reflecting the hope for an amalgam of Confucianism and democracy. It sounds rather odd to a European. At any rate, I think that the outburst of vitality in this country with a history of more than four millennia is extraordinary. Presently, they are concentrating on economic progress. Given the almost unbelievable economic successes of the 1980 and 1990s, I deem it likely that China will carry on successfully in the next decades.

Politically speaking, China is already a world power. Industrially and economically, it is going to become a world power as well. If China maintains its stability and effective government, then its gross national product will surpass that of the Japanese within about three decades. And thereafter, its economy will achieve the same order of weight and magnitude as those of the United States and the European Union. Then there will be three major currencies in the world: the American dollar, the Euro, and the Chinese yen. Of course, I should repeat: The

Chinese still have to overcome enormous problems in the meantime, and they will, of course, encounter setbacks as well.

The West would be well advised not to bother the Chinese nation with any ideological or spiritual tutelage. There is no need to hurt their pride. They are a proud nation, but I do not sense any signs of aggressiveness—not even in the case of Taiwan, as long as there is no provocation. And if this condition is met, and no provocations from the outside arise, then the Chinese can, and probably will, wait patiently until the attraction of a prosperous mainland becomes irresistible to the Chinese in Taiwan. I delivered this same prognosis in a large auditorium in Taipei, Taiwan, and nobody booed me out. Recently, tensions across the Taiwan Strait have subsided. If prudence continues on all sides, then the dangers of major conflict will remain under control. The same may apply to the Kashmir conflict.

18.3.2 Russia

Speaking of probabilities in the coming decades, I must make one remark about Russia. The Russian economy is not yet in good shape. I think it likely that Russia and Putin will find ways to become internationally competitive, to integrate Russia into global markets, and to expand its foreign trade beyond natural gas. The best thing that we in the West can do is to show respect for the 1,000 year-old Russian nation and to offer cooperation on an equal footing, however long Russia's domestic and economic problems may last.

Russia will remain a world power, whether we like it or not, as a result of her vast territory—try to count the number of time zones in Russia—her number of smaller neighbors, her riches in oil, gas, and other minerals, and her enormous military power, which includes thousands of nuclear weapons. Putin is obviously prepared for international cooperation, and is willing to be a dependable partner. Right now, his administration seems somewhat irritated by the number of East European countries that have joined NATO, and, to a lesser extent, the European Union. It would be both prudent of the West, and in its own best interests, to avoid slighting Russia, be it in matters of armaments, trade, or finances.

In the long term, it seems likely to me that we will see moderate—very moderate—economic growth in Russia. Of course, oil prices will continue to be a major factor in that development for a long time to come. The speed of institutional and domestic reform is the other major factor in that process. The creation of resilient institutions in that country will be difficult and will take time. And it will, of course, depend on the degree of domestic political stability. I would guess that sufficient stability can be expected there. In other words, for a period of many years, a relatively authoritarian type of government can be expected in Russia as in China. And like China, Russia will probably not become aggressive in the foreseeable future without being provoked.

By contrast, the future of Ukraine and Belarus appears uncertain. After all, for centuries both of these former Soviet Republics were integral parts of czarist

Russia, and there are no great language barriers. Presently, the structures and economies of Ukraine and Belarus are much weaker than those of Russia. If I were to live long enough, I would not be astonished to see a re-merging of these countries within the course of the century.

One small footnote here from the German point of view: We Germans feel rather relieved that, despite two enormously bloody wars in the twentieth century, there does not seem to remain any hatred between Russians and Germans. This is very astonishing, but you feel it if you talk to people in Russia as well as to Germans. One senses the willingness for partnership on both sides.

Now, having named the United States, China, and Russia as the three powers of global importance, I am, of course, aware of the great future potential of India, which, by the middle of this century, will have 1.5 billion inhabitants. Indonesia, by then, will have about 300 million people. The next most populous states will be Brazil and Nigeria. The future development of these states seems a bit less predictable than the futures of China and Russia. Nevertheless, in the foreseeable future, I do not expect that their policies will set off worldwide conflicts or dangers. The presence of nuclear weapons on almost all sides makes a war between great states rather unlikely. But one cannot rule out another type of great conflict.

18.3.3 Islam and the West

Whether we believe in Samuel Huntington's analysis of a clash between Islam and the West or not, no one can rule out the possibility of such a conflict. If we are not careful, it certainly cannot be ruled out. Such a conflict might not take the form of a great war, but in an atmosphere of general, ongoing animosity, it is conceivable that armed conflicts or wars, guerrilla activities, and terrorist activities, in particular, will be triggered time and again.

Of the nearly 200 states on our globe, almost 60 are populated by Muslims. Most of these states are poor. Some of them are utterly poor, and, at the same time, rather difficult to govern. Very few of them enjoy boundaries with historical legitimacy—legitimacy, for example, that goes back further than World War I or II. Very few of them have historically evolved boundaries. Even fewer of these states enjoy a functioning democracy. Presently, most of them can only be ruled in an authoritarian or dictatorial way, just as they were in their beginnings. There is no use in avoiding this fact, or trying to paper over it.

The Western public, and even the Western political elite, has only a very limited knowledge of Islam and its history. We tend to forget, for instance, that concepts like universal individual rights and democracy are Western achievements of only the last two centuries. They are maybe only 250 years old or so. Thomas Jefferson still had slaves just like Pericles in ancient Athens 2,000 years before him. The Torah, the New Testament, and the Koran have only given us commandments. They have not given us democracy: they have not given us human rights.

The era of enlightenment in America and Europe, 200 or 250 or 300 years ago, was necessary to conceive of equal rights, to conceive of the rule of law, to conceive of the rule of democracy. These concepts evolved steadily in England, America, Holland, and France, and did so in my own country as well. But they did not develop in Arab regions, the Middle East, Iran, Indonesia, China, or Japan. The enlightenment has not yet reached most of the Muslim people, and it certainly has not reached the Islamic masses, altogether about one-fifth of the global population. In the West, the process of enlightenment needed centuries, and this process cannot be condensed into a brief period of years or decades or brought to the Islamic world by way of military force.

I often wonder about our Western attempts to transform the Muslim masses into democrats. They will easily accept television and automobiles and Western technologies, which we export to them, along with modern weapons. But to convert them into democrats will take generations, if it ever happens. And it will also take understanding, economic aid, and tolerance on our side. I believe it would already be an enormous success if we could bring all of their states and governments to acknowledge and obey the rule of international law, and to obey the Charter of the United Nations. It would be quite something. But alas, in the meantime, we sell them weapons and military technologies.

I would hope that arms limitation remains on the international agenda. But poverty, the population explosion, and migration—not to mention oil and gas—will probably make for armed conflicts in the future. For all of these reasons, the Middle East will remain a region of unrest and conflict in the coming decades. The same holds true for great parts of Africa, and possibly central Asia as well. I will avoid, however, mentioning any states by name.

18.4 The Superpower: The United States of America

Some Americans believe that September 11 changed the world. That is not quite correct. Instead, it deeply changed the way in which Americans perceive the outside world; this is the real change. Despite all of their power, Americans suffered a violent attack on their own soil. And this experience led the American leadership to use its enormous military power to fight the so-called war on terrorism. As a result, tendencies toward hegemonic behavior vis-a-vis other nations appear to have come to the forefront.

An imperialist element in American foreign policy has always coexisted with other elements, including isolationism, internationalism, and idealism (nowadays called multilateralism). Sometimes one of these elements prevailed, sometimes another. The history of imperialism goes back to the middle of the nineteenth century. It goes back to Commander Perry in the Bay of Tokyo, who brought about the vast, so-called Meiji Restoration in Japan. It goes back to the wars against Mexico and Spain. It goes back to Teddy Roosevelt, who was called an imperialist at a time when the term had no derogatory overtones. In modern times, we have

heard catchwords like “rogue states” and we have seen Presidents Reagan and Clinton, one after the other, bombing Grenada and Belgrade without a decision from the Security Council. Of course, America is not the only state that has violated the Charter of the United Nations, and American leaders are not the only ones to forcefully spread their own ideologies beyond their borders. A sense of mission has been part of American strategy for a long, long time. Think, for instance, of Woodrow Wilson; think of Franklin Roosevelt, George Marshall, and many others.

From a European point of view, it does not really make a great difference whether you are French or German or Italian or Dutch. One might characterize America’s present strategy by two principles: first, the belief that freedom of action should not be impeded by entangling alliances, to use a very old phrase from American constitutional history; and second, the willingness to wage preventive wars.

Many Europeans take these principles to represent democratic imperialism. You do not hear this from them; people think that speaking their mind is politically incorrect. However, it seems conceivable to me that these guiding principles will persist longer than President George Bush Jr.’s term in office. Right now, only a minority of sovereign states is happy with America’s strategic attitude or the extension of the American fear of interference. Most people, particularly in Europe, would prefer America to act as a leader in internationalism or multilateralism, and they try to influence America in that direction. My own guess is that the world will have to live with a considerable degree of American unilateralism for a while. Such a situation will not necessarily entice other nations and governments to voluntarily engage themselves. Hearing these words, you will think only of France, but you are mistaken to do so.

In my view, it would be helpful for Americans today to analyze the reasons for the relatively quick, totally unforeseen disappearance of sympathy and solidarity that characterized public opinion all over Europe after September 11. It was really overwhelming in France, in Germany, and even in a number of non-European Arab countries. Are you aware that this undesirable change in the mood of public opinion was triggered by American unilateralism, and by some instances of verbal arrogance, as well?

Several possible answers to these questions lead to a basic question that many leaders outside America ask themselves: namely, will the United States stick to the Charter of the United Nations? Or will unilateralism determine America’s geostrategy for decades to come? It may be difficult to arrive at a clear-cut answer, but, then again, there are quite a few additional questions and choices to be made. I will only mention two of them. First, what is America’s policy vis-a-vis the more than one billion Muslims in Africa, Asia, and Europe? Is it really realistic to believe in your own ability to guide them toward democracy in their 50-odd states? Second, is the United States prepared to accept the growing role of China? What is America’s policy toward this world power, with its current population of 1.3 billion, which will grow to 1.5 billion in just a couple of decades?

Right now, the U.S. appears free to make its own choices, and it will do so. Future historians may be able to decide whether the early years of the twenty-first century were a watershed or not. My private guess is this: Not quite soon, but somewhat later, Americans will again become conscious of the fact that this century will present mankind with dangers and challenges that no state or nation, not even the most powerful, can face on its own. Whether these challenges take the form of the global population explosion or global warming, whether mankind is confronted with global environmental decay or global epidemics, global crime, globally operating terrorist organizations, or global monetary disorder—in none of these cases will America be able to unilaterally impose answers, provide means, or even shelter itself. And, of course, the same goes for all less powerful nations. It applies to the European Union, to Russia and China.

American leaders have long since realized that all of these cases require international cooperation. Whether it is the law of the sea, going back hundreds of years, or the law of the sky, going back two generations, whether it is the rules by which payments are managed—you have long since realized that international cooperation is needed. I trust that American leaders will again head in that direction. After all, it is the imperfect United Nations and its imperfect charter upon which the rule of law in international affairs is based. This imperfect world has no other globally binding constitution. The European nations will try to uphold the charter and the United Nations.

18.5 The European Union

In order to preserve their self-determination in the face of the global dangers and disorders of this century, Europeans will try to stick together; they will try to develop the European Union, try to shape it into a more competent entity. That undertaking was started half a century ago by just six West European states—France, Germany, Holland, Luxembourg, Belgium, and Italy, primarily under the guidance of French states men, and with benevolent assistance from America. Despite the aforementioned rift resulting from the member states' differing positions on the Iraq War, the relationship that has grown among the European Union's 15 member states (and, in a short while, its 25 member states) can be considered an enormous success.

One need only look back at a millennium of devastating European wars, or at the two World Wars of the twentieth century, to realize that this is an enormous achievement, even if we are not totally satisfied at the moment. One need only remember that almost all of the European nations, and their corresponding national languages, have histories of around a 1,000 years. Ask an Englishman how long the English nation has existed; ask a German. The French may give you an answer that refers to a slightly longer history, the Italians may speak of an even longer history. With a few exceptions, including Poland, 1,000 years is the approximate

length of time over which these nations and their languages and their particular cultures have evolved.

It is this long history that made it so hard for many Europeans to sacrifice some of their national autonomy and establish a European Union. Particularly difficult is the task of arriving at a common foreign policy. I think it may still take anywhere between 25 and 50 years to come to a common foreign policy. In particular, the role of Great Britain is still undecided, and a common defense policy might take even longer than 25 and 50 years.

And what of the half-century since the start of the European Union in 1950? If we only needed another 50 years to function as a fully operating entity, then that would not be too bad. Such a thing has never happened in any part of the world. We saw the Roman Empire, but its states, countries, and peoples did not always volunteer to become Roman provinces; rather, they were forced to join. In the history of mankind, *sovereign nations* with long histories have *never* before voluntarily *given up* part of their sovereignty to form a greater union.

Nevertheless, there is one big 'if' standing in the way of our success in the coming 25 and 50 years. We will succeed only if our present and future leaders (and public opinion in two dozen nations) uphold the conviction that a well-functioning union is necessary in order to maintain the basic patriotic interests of individual nations. It is something that nobody conceived of in the nineteenth century, or in the first half of the twentieth century. It is something that only a few people thought about in the second half of the twentieth century.

We are slowly coming to realize the importance of that conviction. One cannot rule out the future possibility of an enormous enlargement of the European Union by the accession of 10 states at once. One cannot rule out the possibility that this may challenge the competencies of the Union. One cannot totally discount the possibility that a small group of nations within that union will develop a closer cooperation.

It is also possible that deep disappointments with the EU will cause some countries to attach themselves, in one way or another, to the United States. I would not exclude that possibility—let us wait and see. In this case, it seems highly likely that the common market and the common currency would persist. But perhaps little more than these two institutions would remain functional. I am not an optimist; I am not a pessimist either, but realistically, one has to admit that right now, the European Union is not in the best of shape.

Europeans will continue to try to influence America's foreign policy. They will attempt to discourage America's hegemonic tendencies, and they will try to strengthen multilateral ones instead. Right now, the French and British elites are working *most* actively to create change, but they are pursuing it along quite different lines. In response to some unpleasant exchanges about Iraq that have taken place on the other side of the Atlantic, I have publicly urged my own government to maintain an attitude of composed dignity. In my view, it would have sufficed to remind our American friends and partners of the terms of the Two-Plus-Four Treaty upon which the unification of Germany was based 13 years ago. By the way, this treaty was conceived of in this very city by an American foreign

secretary and his staff. According to the language of the treaty, a unified Germany can only use its military weapons in cases that are in “accordance with the Charter of the United Nations.” This treaty was ratified by the Soviet Union, France, Britain, the United States of America, and also by the former East Germany. This treaty, the result of James Baker’s initiative, should have been invoked to explain why the Germans could not participate in actions in Iraq. Without mentioning any names, there was a lot of fuss from the German side, and a lot of fuss from the American side.

Good neighborly relations and cooperation between America and Europe need to be maintained. Whether American or European, we stand upon the shoulders of common ancestors such as Montesquieu, Rousseau, and Voltaire, and all of us follow in the footsteps of the American Federalist Papers. The basic principles of democracy and human rights were created in America, England, Holland, France, and other European countries as the result of mutual collaboration. It was a long process that evolved slowly. And without Charles Darwin or Albert Einstein, modern science on both sides of the Atlantic would never have progressed so far. Both Europeans and Americans have inherited the same enormous wealth of insights into culture and civilization. It is desirable to remind the public of our common roots.

Nevertheless, it is undeniable that the U.S. is the only state with the power to operate militarily all over the globe. This is true today, and will also be true tomorrow. Americans have the power to act unilaterally, alone and without much respect for the opinion or advice of others. It is for Americans to decide whether they will listen and take advice. If you decide against it, then Europeans will have to accept it as a fact that they cannot change. But after taking unilateral action in Iraq, America can hardly expect Europeans to send troops and finances to clean up and rebuild the demolished houses and bridges and cities like we did in Bosnia and Kosovo.

18.6 Conclusion

Let me conclude with three points. First, growing dependence, or growing interdependence, in an ever more densely populated world means the growing potential for conflict, but, at the same time, it also means the growing necessity for compromise. Second, in the future, the conscientious will go for compromise and tolerance will become more decisive than it has been in the past. And third, no one is morally entitled to exclusively pursue his or her own rights or claims or interests; everyone has duties and responsibilities vis-à-vis the others.

Erratum to: Helmut Schmidt

Hartmut Soell

Erratum to:
H. Soell (ed.), *Helmut Schmidt*,
SpringerBriefs on Pioneers in Science and Practice,
DOI [10.1007/978-3-319-03868-1](https://doi.org/10.1007/978-3-319-03868-1)

1. Hartmut Soell must appear as the editor instead of author in frontmatter, cover, and sourceline, and it has been changed wherever necessary.
2. The phrase “by Hartmut Soell”, should be added in Preface footnote 1; hence, it should read as: “This prefatory essay was written in German by Hartmut Soell, translated by Hans Günter Brauch and carefully language-edited and corrected by Mr. Michael Headon (Colwyn Bay, Wales, UK)”.
3. On page xxv, in Part I of Contents, first and second titles should read as “A Short Biography of Helmut Schmidt by Hartmut Soell” and “Major Books by Helmut Schmidt and About Him as Chancellor of the Federal Republic of Germany Compiled by Hartmut Soell” instead of “A Short Biography of Helmut Schmidt” and “Major Books by Helmut Schmidt and About Him as Chancellor of the Federal Republic of Germany”, respectively.
4. Title of Chap. 1 should read as “A Short Biography of Helmut Schmidt by Hartmut Soell” instead of “A Short Biography of Helmut Schmidt”.
5. Title of Chap. 2 should read as “Major Books by Helmut Schmidt and About Him as Chancellor of the Federal Republic of Germany Compiled by Hartmut Soell” instead of “Major Books by Helmut Schmidt and About Him as Chancellor of the Federal Republic of Germany”.

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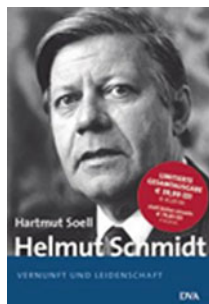
About the Editor



Hartmut Soell (born 11 March 1939 in Kehl) is a German historian and long-term Member of Parliament representing the Social Democratic Party of Germany (SPD). He studied history, political science and international law at Göttingen and Heidelberg and he obtained his Dr. phil. degree from Heidelberg University in 1963. From 1965 to 1968 Soell was an assistant in the SPD parliamentary group in the German Bundestag. Subsequently he was a scientific assistant in the history seminar at Heidelberg University where he obtained his habilitation in 1974. Since 1977 he has been Professor of Modern History at Heidelberg University.

From 1980 to 1994 he was a member of the Bundestag and at the same time from 1987 to 1991 Vice President and in 1992–1993 President of the Parliamentary Assembly of the Western European Union where from 1991 to 1994 he chaired the German delegation. Prof. Dr. Soell's publications include the political biographies *Fritz Erler. Eine politische Biographie* (1976) [Fritz Erler: A Political Biography] and *Der junge Wehner. Zwischen revolutionärem Mythos und praktischer Vernunft* [The Young Wehner: Between Revolutionary Mythos and Practical Responsibility] (1991). In 2003 the first volume of his

biography of Helmut Schmidt was published under the title *Vernunft und Leidenschaft* [Reason and Passion] and in 2008 a second volume followed entitled *Macht und Verantwortung* [Power and Responsibility].



About the Book

For the 95th birthday of Helmut Schmidt, West German Chancellor 1974–1982, his biographer Hartmut Soell, professor of history at Heidelberg University and former member of the German Parliament (1980–1994), presents Helmut Schmidt as a *Pioneer of International Economic and Financial Cooperation*.

Helmut Schmidt is one of the most imaginative German and European politicians and commentators of the second half of the twentieth century. Yet his family background was not political—his musical talents seemed to destine him for an artistic career. Influenced by the catastrophes of the early twentieth century—global economic crisis, dictatorship, war—Schmidt entered politics as a trained economist and from the 1960s to the 1980s was one of the most innovative policymakers. Even in 1948, when he was still a student, he foresaw—unlike the leadership of his party—an opportunity for Europe in the internationalization of the Ruhr that could lead to cooperation in the European coal and steel industry. Two years later this idea became reality with the Schuman Plan.

Before he became minister of finance and economy in 1972, he had been active as a Member of Parliament in the area of international security policy. The ideas he developed in those years about arms control and disarmament for conventional and nuclear weapons were among the most innovative proposals in these areas, even though they were not put into practice until his time as a minister and Chancellor was over. Although in this area, as in Western politics in general, eventual success depended on the end of confrontation between the Eastern and Western blocs, he was able to implement many of his ideas in the realm of economic and financial policy during his period as an active policymaker.

As minister of economy and finance and as Chancellor he was able to implement many of his ideas for closer cooperation between Western industrial states on currency issues and energy policy during the 1970s. This was particularly true for cooperation on currency issues after the Bretton Woods system had come to an end in 1971/1972 and during the first oil crisis (1973/1974). With French President Valéry Giscard d'Estaing he launched the G7 summits in 1975. These significantly contributed to the avoidance of the “beggar my neighbour” policies of the early 1930s that had had catastrophic consequences for Europe. Schmidt's

proposals for a European currency system (1978/1979) eased the way for the European economic and currency union. As editor of *Die Zeit*, he became an influential commentator who continues to influence this process through his ideas and critiques up to the present day.